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UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT OF THE TRADE AND DEVELOPMENT BOARD ON THE SECOND PART OF ITS FORTIETH SESSION

held at the Palais des Nations, Geneva,
from 18 to 29 April 1994

Volume II

Summary of proceedings

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Preface

This volume (volume II) of the report of the Trade and Development Board on the second part of its fortieth session contains the summaries of statements made during the session.

All other matters relating to the second part of the fortieth session of the Board are to be found in volume I of the report, entitled Report to the United Nations General Assembly.* These include action taken by the Board, statements of position in relation to that action, the procedural and institutional matters, and diverse annexes.

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* See TD/B/40(1)/24 (Vol. I).

CONTENTS

Chapter		Paragraphs
	INTRODUCTION	1 - 37
I.	TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES (agenda item 2)	38 - 82
II.	DEVELOPMENTS AND ISSUES IN THE URUGUAY ROUND OF PARTICULAR CONCERN TO DEVELOPING COUNTRIES (agenda item 3)	83 - 192
III.	SUSTAINABLE DEVELOPMENT: THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT (agenda item 4)	193 - 213
IV.	REVIEW OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990s (agenda item 5)	214 - 274
V.	UNCTAD's CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: INVESTMENT PROMOTION, FOREIGN DIRECT INVESTMENT, TRANSFER OF TECHNOLOGY (agenda item 6)	275 - 338
VI.	REVIEW AND EVALUATION OF WORK PROGRAMMES (MID-TERM) (agenda item 7)	339 - 340
VII.	OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT (agenda item 8)	
	(a) Report of the Joint Advisory Group on the International Trade Centre UNCTAD/GATT on its twenty-sixth session	341 - 356
VIII.	ARRANGEMENTS FOR THE CELEBRATION OF THE THIRTIETH ANNIVERSARY OF UNCTAD (agenda item 10)	357
IX.	OTHER BUSINESS (agenda item 12)	
	Terms of reference for the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament	358 - 378

INTRODUCTION

1. In his opening statement, the **President** reiterated the sentiments he had expressed at the fifth (pre-sessional) executive session of the Trade and Development Board, on 8 April 1994, in paying tribute to Mr. K.K.S. Dadzie, whose term as Secretary-General of UNCTAD had come to an end on 31 March 1994.

2. The current session of the Board was taking place against a backdrop of major historical and international events The signing of the Final Act of the Uruguay Round in Marrakesh, Morocco, on 15 April 1994, manifested the determination of the international community to maintain an open multilateral trading system, which was a matter of prime importance to all countries. The results of the Uruguay Round had substantially transformed the multilateral trading system and the acceptance of the Final Act meant that all members now assumed a more uniform set of rights and obligations to meet the challenges and opportunities of the twenty-first century. It had resulted in a rule-based system to govern international commerce in goods and services, it had integrated areas of international economic relations henceforth within the scope of the trading system and had reaffirmed the efficacy of multilateralism.

3. The Agreement Establishing the World Trade Organization and the Cartagena Commitment of UNCTAD VIII clearly delineated the functions of the two organizations. UNCTAD's functions covered policy analysis, intergovernmental deliberations, consensus-building and negotiations. UNCTAD had the competence and capacity to provide constructive approaches and viewpoints, and to generate political impulses in areas of trade and development to be considered by institutions, such as the new WTO, vested with the contractual powers of decision and rule making. The Uruguay Round concentrated on arriving at detailed, workable disciplines in areas which had become major sources of tension in trade relations, both traditional and new. However, newer issues were giving rise to fresh tensions which would have to be addressed in the near future. It was generally recognized that UNCTAD had made an important contribution to the Uruguay Round negotiating process, both through its analysis of issues and its technical assistance to developing countries. It could make a further constructive contribution to the definition of the post-Uruguay Round agenda through its analytical capacity, its consensus-building and its technical assistance programmes. This would be a clear manifestation of the complementarity between the WTO and UNCTAD, which should help developing countries to participate actively and effectively in the international trading system in the years to come.

4. In addition to the agenda item on the Uruguay Round (item 3), there were several other highly important topical items on the Board's agenda. Trade with economies in transition had in the past been an important segment of the international trade of many countries, and had frequently been complemented by important industrial, investment, technological and financial cooperation. Most of these traditional relationships had been seriously affected by the transformation process of major partner countries in transition. The Board, in its review and evaluation of the transition process, could identify new opportunities arising for trade, industrial and technological cooperation for the mutual benefit of developing countries and countries of Central and Eastern Europe. The Board would also be considering the theme of sustainable

development, and the effects of internalization of external costs on sustainable development, under its mandate in the follow-up to UNCED. This topic was currently at the cutting edge of research and debate and its discussion presented UNCTAD with an opportunity and a challenge.

5. He recalled that the Special Sessional Committee, in addition to carrying out the annual review of progress in the implementation of the Programme of Action for the LDCs, would also address the preparatory process for the Mid-term Global Review (September 1995) called for under General Assembly resolution 48/171 of 21 December 1993. Thorough and adequate preparations for this important event called for high-level and effective participation by both LDCs and their development partners in the preparatory meetings and the Mid-term Global Review itself. As with any development strategy and policy, the success of the Programme of Action would depend on the effectiveness of its implementation and follow-up. The annual review process and the Mid-term Global Review should enable the international community to assess the progress made in fulfilling the commitments undertaken by the LDCs and their development partners and to agree on new policies and measures to ensure the timely and effective implementation of the Programme of Action during the rest of the decade.

6. Recalling the objectives of the United Nations New Agenda for the Development of Africa in the 1990s, he observed that, in spite of very significant changes in policy stances and comprehensive programmes adopted by African countries to address the problems of growth and stability, Africa remained the poorest among the developing regions. Both the African Governments themselves and the international community, which had supported Africa's new approaches to economic management, had signified their intention to intensify their efforts to find practical, realistic and sound solutions to the daunting problems faced by the region. This had been done at the level of the General Assembly itself, at UNCTAD VIII and in the Trade and Development Board. The Board's consideration of this agenda item thus represented a further effort in UNCTAD's continued search for, and contribution to, a resolution of the region's problems.

7. The structures and working methods for UNCTAD decided upon at Cartagena had been in operation for two years now, during which time considerable progress had been made in every respect and the experience gained should enable the Board at its resumed session in May 1994 to draw some useful lessons in the context of the mid-term review. The experience so far clearly indicated that the reforms adopted by UNCTAD VIII had been well translated into a more effective way of doing business in UNCTAD. The new processes had made it possible for deliberations to be concluded expeditiously, with more time spent on intergovernmental reflection and interaction on matters of substance. One successful initiative had been the regular and active participation of high-level officials from capitals, of representatives of international organizations and of invited experts in informal discussions on all the substantive issues taken up. These contributions had been supplemented by country presentations on national experiences with policies in many of the subject areas discussed, in conformity with the emphasis placed by the Cartagena Commitment on the exchange of such experiences. As a result, the technical and policy content of the discussions had been considerably

enhanced, and the pragmatic and non-confrontational approach which had characterized all meetings had facilitated the search for areas of convergence.

8. Taken together, the measures adopted to increase the efficiency of the intergovernmental bodies of UNCTAD had upgraded the capacity of the organization to seize the new opportunities to foster international cooperation for development and, in particular, to promote international consensus on principles and strategies for policy action at the national and international levels in order to enhance the development prospects of member States. The changes that had taken place in UNCTAD represented also an important response to the reform of the economic and social sectors of the United Nations. After 30 years of existence, UNCTAD continued to be a vibrant element in the United Nations system with a clear and evolving role to play in the field of trade and development.

9. The **Officer-in-Charge of UNCTAD** said that the signing of the Final Act of the Uruguay Round at Marrakesh was a historic milestone that would have important repercussions for UNCTAD's work. The Final Act contained the premises for a radical transformation of the multilateral trading system. By accepting rigorous multilateral disciplines and a degree of erosion of differential and more favourable treatment, some developing countries might face a substantial contraction in the policy options and instruments open to them, and the LDCs in particular might be particularly hard hit. The international community should therefore agree that no country should be worse off as a result of the Uruguay Round agreements, and concrete programmes should be introduced to assist individual countries to neutralize short-run adverse effects and derive sustained benefits from the post-Uruguay Round trading system. Support from the international community was essential - especially UNCTAD's well-tried technical cooperation - to help the developing countries master the complex web of new mechanisms and instruments embodied in the Final Act. UNCTAD's work on trade efficiency was also relevant in this regard.

10. As the President had stated, the respective roles and functions of the WTO and UNCTAD were already clearly delineated. The complementarity of the tasks to be undertaken by the two organizations should be ensured, since there was a demonstrated need for UNCTAD to complement the role of the GATT/WTO in its negotiating processes and its legal framework. UNCTAD provided a global forum within the United Nations for all countries to participate in the policy debate and consensus-building on development and interrelated issues in the areas of trade, commodities, finance and investment, services and technology. This process had already begun in trade and environment, as well as on Agenda 21, where the focus of UNCTAD, as the Task Manager for the whole United Nations system, was quite distinct from that agreed for the WTO's work on this issue. UNCTAD could also make a distinct contribution on the relationship between existing international trading rules and national competition policies, where the experience and expertise it had accumulated on RBPs would be very valuable. UNCTAD had the further task of helping to strengthen the foreign trade sector of its member countries, and the support of the International Trade Centre UNCTAD/GATT would serve as a further link between UNCTAD and WTO.

11. Reporting on the discussions which had taken place so far in the Mid-term Review Informal Working Group, he observed that UNCTAD had succeeded in incorporating new focuses in its work in the wake of Cartagena, notably in the emphasis laid on the national dimension and the need for national economic policy reform in the developing countries. Many countries felt that the time had come to advance further in the "dynamic and progressive sequence" called for in the Cartagena Commitment towards consensus-building and more policy and action-oriented deliberations leading, wherever possible, to agreement on implementable commitments.

12. Experience with the ad hoc working group mechanism had been overwhelmingly positive, but the following aspects called for attention: problems relating to full and equitable participation of the developing countries and especially of the least developed countries; the large number of working groups set up after Cartagena and their over-ambitious mandates; the need to eschew duplication, both within UNCTAD and vis-à-vis other organizations, while allowing some scope for productive complementarity. Consequently, it was generally felt that the present five Ad Hoc Working Groups should be wound up, to be succeeded by three others. These, moreover, should have sharply focused mandates and be given more realistic and achievable objectives. There was also a need for fewer meetings as well as for more manageable agendas and less documentation. As for the topics to be dealt with by the new Groups - in addition to the one on structural adjustment for the transition to disarmament - several possibilities had been put forward, including trade and environment, trade as a general issue, enterprise, technology related to trade, and integration and regional cooperation. However, in view of the increasingly tight resource situation of the UNCTAD secretariat, it would be necessary to establish priorities and work programmes that were compatible with the work capacity and resources of the secretariat.

13. Commenting on the other items on the Board's agenda, he said that under item 2 attention should be given to ways for overcoming the difficulties in mutual trade and industrial relations among economies in transition, and in particular among the CIS member countries. Likewise, trade and industrial cooperation between economies in transition and developing countries had suffered during the transition process. It was necessary to strengthen national policy instruments and cooperative arrangements to enable countries to exploit the new opportunities that would arise when the economies in transition resumed economic growth. Full and equal participation of the countries in transition in the post-Uruguay Round trading system was a prerequisite for the success of the process of transition. International support could make a major contribution in this respect.

14. Regarding the effects of the internalization of environmental costs on sustainable development (item 4), he outlined the main thrust of the secretariat report on this subject (TD/B/40(2)/6) and pointed out that the developing countries could lose competitiveness by internalizing environmental costs in the prices of their products. The need for international cooperation was therefore particularly great in this area.

15. As for the review of progress on the Programme of Action for the Least Developed Countries for the 1990s, he stated that the informal meetings of the Special Sessional Committee would be attended by a number of Ministers from LDCs as well as experts from LDCs and OECD countries. He trusted that, in formulating the preparatory process for the Global Mid-term Review, the Board would agree on a recommendation for submission to the forty-ninth session of the General Assembly on the twin questions of the preparations for the Mid-term Global Review and of ensuring adequate participation by the LDCs.

16. Regarding agenda item 6 on UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s, he stated that a number of measures would be necessary in view of the continued economic decline and civil strife in that continent. These included the need to boost inflows of foreign direct investment into Africa and to stimulate domestic resource mobilization. There was also a need to enhance Africa's awareness of those factors that still inhibited investment and to propose ways of effectively alleviating such constraints, as well as to raise the awareness of the business community of the investment opportunities which nevertheless existed in Africa.

17. Finally, on the Board's policy review of UNCTAD's technical cooperation activities, he said that the excellent report prepared for this purpose by the consultants, Dame Margaret Anstee and Mr. Leelananda da Silva (TD/B/40(2)/14) provided practical recommendations for strengthening UNCTAD's technical cooperation activities and integrating them into all relevant areas of UNCTAD's work, as agreed in the Cartagena Commitment. As the consultants noted, however, these goals could not be attained by action within the secretariat alone. Member States themselves, both developed and developing, had a key role to play in providing both political support and increased extra-budgetary financial contributions.

18. The spokesman for the **Group of 77 and China** (Chile) said that, with the signing of the Final Act of the Uruguay Round in Marrakesh and the agreement to establish the World Trade Organization, UNCTAD had become even more relevant as a forum of 30 years' standing for policy analysis, dialogue and negotiations that took into account the special interests of the developing countries on trade and development. Indeed, UNCTAD continued to play a pivotal role in the efforts of developing countries to raise their standards of living. Developing countries were still faced with rapidly rising populations, declining export incomes, increased foreign debt and debt servicing, and growing food import dependence, not to mention the many natural disasters that befell these countries. The success of the developing countries' own policy reforms and efforts to improve their trading performance depended critically on adequate international support, including intensified cooperation from developed countries to promote technology transfer and foreign investment, especially in favour of the LDCs. In this context, he observed that the initial restructuring of the foreign trade patterns of economies in transition had led mainly to a rapid increase in trade with developed countries, and only a very few developing countries had participated. He emphasized that the financial resources devoted by developed countries to the economic development of the economies in transition should be additional and should not prejudice the normal flow of resources to developing countries.

19. Since the conclusion of the Uruguay Round in December 1993, the developing countries had been calculating their gains and losses. Some had gained more than others, but some of the poorest countries had not gained at all. Developing countries had already paid the price of accepting the new terms without obtaining in exchange satisfactory conditions of market access. The question lingered as to whether the Final Act of the Uruguay Round represented a real victory for development, notwithstanding its reaffirmation of the efficacy of multilateralism. The substantial contraction of policy options and instruments open to developing countries posed new challenges to their policy-makers. The Board has been requested to analyse and assess the outcome of the Uruguay Round, in particular in areas of interest and concern to developing countries, and its impact on the international trading system. The Board should also examine the problems and opportunities that the developing countries faced in expanding their participation in international trade in goods and services in the 1990s and beyond. In addition to this overall systemic analysis, UNCTAD should also provide support to developing countries in the implementation of the Uruguay Round results and in analysis and consensus-building with respect to competition policy, new issues such as services, trade and environment, technology and investment.

20. On the questions of environmental protection and sustainable development, the Group of 77 and China recognized that these were collective responsibilities. However, the assistance called for under Agenda 21 had not been forthcoming. When millions lived in crushing poverty and lacked even the essentials of a decent life, development policies must take precedence over the environment. The developing countries recognized that this was bound to create longer-term problems, but they simply did not have the means to allocate scarce investment resources to environmental rather than developmental problems. Unless and until the northern Governments, industries and environmental NGOs which were agitating for action on their own environmental agenda joined with developing countries in a real partnership, there would be little or no movement on internalization of environmental costs. The secretariat was right to suggest starting this partnership process with a twin initiative on resource pricing in the commodity context and on environmental finance. He felt that the Standing Committee on Commodities could usefully begin discussions on internationally agreed resource pricing issues at its third session. Moreover, the matter of environmental finance was of such importance, and of such a cross-cutting nature, that it should be discussed at the level of the Board, and he therefore supported the secretariat's suggestion that it be made the sustainable development theme for the spring session of the Board in 1995.

21. Expressing the deep concern felt by the Group of 77 and China at the retrogression in the economic and social performance of the LDCs in recent years, particularly the African LDCs, he said that the Mid-term Global Review in 1995 would provide an opportunity for the LDCs and their development partners to take new measures to enhance the implementation of the Programme of Action during the rest of the 1990s. In particular, and in consequence of the increase in the number of LDCs since the adoption of the Programme of Action, he urged LDCs' developed partners to provide them with substantial increases in the level of external financial resources committed by the Programme of Action, to cancel all bilateral official debt and to take measures for substantial reduction of LDCs' debt stock and debt service burden

for multilateral debt. Similarly, with regard to the United Nations New Agenda for the Development of Africa in the 1990s, he hoped that the Board would be able to formulate practical proposals for actions to stimulate investment and transfer of technology to Africa and reverse the current trend of decline in economic activity in this region. African countries needed assistance in their search for more effective mobilization of domestic and external resources, as well as in promoting the flow of external resources in specific industrial projects, establishing new investment promotion machinery, training their nationals in techniques of investment promotion, and securing the services of expert advisers. The UNCTAD secretariat should therefore continue to explore the means by which African countries could be made more aware of the factors which continued to deter foreign investment in Africa. Efforts should also be made to disseminate information on opportunities for investment in Africa.

22. Finally, he stated that the Group of 77 and China strongly reaffirmed their conviction of the vital need to further strengthen UNCTAD. UNCTAD was an indispensable organization for securing the adoption of new attitudes and new approaches to international trade and development issues. Multilateral economic negotiations within UNCTAD had produced important initiatives and led to the adoption not only of general principles but also of specific instruments for international economic cooperation, as well as the adoption of codes, conventions and programmes. UNCTAD has provided the forum where many prominent thinkers and economists had launched new and logical ideas and concepts, and had thus made an objective contribution to important contemporary dialogues. The Group of 77 and China remained deeply committed to the irreplaceable role of UNCTAD and would continue to support all efforts aimed at strengthening this organization.

23. The spokesman for the **European Union** (Greece) said that the current session of the Board was taking place against the background of a difficult world economic situation, with declines in various growth indices. There were, however, some recent indicators that pointed to prospects for an upturn in parts of the industrialized world and he hoped that this sign presaged high and sustained worldwide growth. The situation in developing countries as a whole had been significantly better with a growth of 4.5 per cent, and some developing countries had experienced even higher growth. However, as mentioned in the recent UNCTAD Report on the Least Developed Countries, LDCs were below the average, and African LDCs had registered a decline of 1.2 per cent. Prices of agricultural raw materials had declined by about 6 per cent in 1993 in LDCs, following a fall of 2 per cent in 1992.

24. In the EU the predicted recovery was expected to be driven essentially by further monetary easing and self-stabilizing characteristics of market economies. Inflation averages were still kept low. The deepening recession had had a profound impact on the EU labour market, and the unemployment rate was now forecast to reach a historic peak of around 11.5 per cent in 1995. Despite the fact that unemployment forecasts were the worst in the history of the 12 member States, the EU would make an effort to ensure that this did not have a negative effect on its external economic relations, particularly with developing countries.

25. Referring to the signing of the Final Act of the Uruguay Round in Marrakesh, he said that the successful outcome should boost prospects for economic recovery and growth worldwide. It now remained to be seen how best the agreements would be implemented.

26. Turning to the general situation of UNCTAD, he said that the positive elements introduced at UNCTAD VIII had made the organization more lively and receptive. Notwithstanding these changes, UNCTAD still needed some streamlining. In the context of the current mid-term review exercise, the EU considered that work programmes should adequately reflect the time available. In addition, the importance of rationalizing UNCTAD's resources had to be taken into consideration. Clear priorities needed to be set and transparency as to the use of resources was of vital importance.

27. The transfer of new functions to UNCTAD, notably in the area of transnational corporations and science and technology, implied new responsibilities for the UNCTAD secretariat. In the interest of the successful integration of the two new bodies, he hoped that early steps could be taken to rationalize their legal and constitutional position. In two weeks' time, the twentieth session of the Commission on Transnational Corporations would be taking place in Geneva and it would be an important test for its smooth accommodation to the overall UNCTAD reforms and practices.

28. The reforms agreed upon at Cartagena also comprised new and more efficient methods of reflecting the conclusions of the Board's deliberations. The EU strongly supported the new approach, which aimed at giving a less formal character to the outcome of deliberations in the Board. Careful consideration must be given to deciding which form was the most appropriate in each specific case. He added that the executive sessions should play an effective role in the preparatory work of the Board and should be entrusted with the examination of specific issues dealt with at regular sessions.

29. Turning to specific items on the Board's agenda, he said that the question of structural adjustment under item 2 was receiving the utmost attention by the EU. He praised the courageous steps being taken by developing countries in undertaking to reform their economies. In tackling the grave problems that were besetting the LDCs, especially in Africa, he considered that domestic resource mobilization was the single most important source for the generation of development finance. However, external assistance would continue to play a key role. The EU would continue to provide substantial ODA, with particular emphasis on assisting the poorest countries. Poverty, population policy, the environment, education, health, the role of women and the welfare of children merited special attention. The EU would support in particular those countries that made credible efforts to help themselves through appropriate economic policies and good governance. Likewise, the EU would continue to push for improvements in the debt arrangements of the poorest and most indebted countries which were pursuing economic reform programmes. Solving the problems of the African continent required action in a number of fields, including strengthened regional cooperation and regional integration. The need for foreign direct investment and transfer of technology to the African countries was beyond doubt. The problems of both the LDCs and the African countries, although not identical, needed the special attention of the international community. The issues

pertaining to these groups of countries should be more fully integrated into the work of UNCTAD to ensure that their special situation was continuously considered.

30. Sustainable development was one of the most important subjects on the policy agenda of the 1990s. The newly established Commission on Sustainable Development would be meeting for the second time in May and it was essential to ensure that the basis for the Commission's considerations was carefully prepared. The issue selected for discussion at this session of the Board, namely the effect of internalization of external costs on sustainable development, was very important and the EU praised the secretariat for dealing with such a difficult and complex subject.

31. In connection with item 11 (f), he stated that the EU would be putting forward a proposal of the European Union for upgrading the rights of representation of the European Community in the Special Committee on Preferences to those of participants without a vote. He hoped that it would be possible to decide positively on this matter at the current session. The rights of member States of the European Union were not affected by this proposal.

32. Referring to the documentation prepared for the Board's session, he expressed concern at the late distribution of certain documents. Documentation must be made available in time and in all languages, allowing delegations to prepare for the discussions of the issues on the agenda, particularly in capitals. The secretariat might wish to inform members not only of the reasons for the serious delays, but also of the secretariat's intentions with regard to improving this situation. It was well recognized that one of the main causes had been the overloading of the calendar with too many meetings, but there were other factors too.

33. Finally, he said that the EU continued to support fully the positive course set for UNCTAD following the Cartagena Conference and to be fully committed to the "Spirit of Cartagena". The reform process begun in Cartagena must be pursued. The objective was to overcome the disparities and gaps that still divided the populations of the world. Cooperation for development was a central challenge to mankind as it moved towards the twenty-first century. The challenges ahead were manifold and complex. The European Union would continue to seek a positive partnership with the developing world.

34. The representative of the **United States of America** said that since the Rio Conference there was a growing consensus that the greatest challenge for the next century was solving the sustainable development equation, of which trade and environment was a key component.

35. To meet this challenge, the international community must identify the forces leading into the global era, inter alia:

- Economic interdependence. Labour, capital, production and markets had all been globalized;

- The information revolution, which had made people around the globe more aware, more demanding and more able to act independently of governing structures;

- Not only were money and ideas overrunning political borders, so too were refugees, immigrants, pollution, narcotics, armaments and disease. As a result, terms like national interest and national security were losing clarity. And national governments were less able, on their own, to satisfy popular expectations;

- At the same time, more and more non-State actors were moving on to the world stage. These included multinational corporations, environmental and human rights organizations, criminal cartels, ethnic minorities and individuals of broad public influence.

These and other forces were the essence of the post-cold war era, the global era, and they were changing the international order beyond anything the statesmen and statecraft of the old State system had ever contemplated. Long-stable institutions had been profoundly altered; some - including the United Nations - were acquiring new relevance; others were being redefined; still others were fading from view. Clearly a major step had been taken in Marrakesh towards building a twenty-first century institution that would shape the world. Fortunately, the action taken at Cartagena two years ago to refashion UNCTAD had positioned UNCTAD to play a key role in the vibrant and productive partnership established to redirect and develop both UNCTAD's own agenda and the new WTO. During the two years since Cartagena all member countries had contributed to creating a new attitude in UNCTAD, and recreating an institution which was rapidly gaining a reputation for excellent analysis and thoughtful discussions of issues which fostered greater understanding. Consideration should be given to strengthening the analytical capacity of UNCTAD. The addition to UNCTAD of the Centre for Transnational Corporations would augment that capacity in certain areas.

36. The Ad Hoc Working Groups had accomplished some commendable and creative work, but the participants had tended to demand too much of themselves and of the resources available. There was thus a need for greater discipline and focus, and this aspect would be dealt with in the mid-term review exercise. She hoped that UNCTAD as an institution would continue to evolve, and believed that UNCTAD's relations with WTO, OECD and other institutions concerned with trade and development would continue to change.

37. Finally, she observed that UNCTAD's Trade Efficiency Initiative combined the best features of the new UNCTAD. This programme combined significant policy considerations with concrete actions, namely the establishment of the network of electronically-linked Trade Points. The Trade Points now existed in some 50 countries. They brought immediate benefits and should quickly give a substantial boost to world trade. Simplifying business procedures, providing increased market access through information, spreading technologies, and targeting small- and medium-sized enterprises all provided a real service

to UNCTAD members. This was an exemplary marriage of policy discussions, action, technical assistance and clear results. Through individual national action, a closer global community was being forged, one in which open information allowed everyone to gain. Electronic trade was the wave of the future. Through this programme, UNCTAD was preparing all countries for full and equal participation in trade in the decades ahead. In this connection, all countries would be welcome to attend the World Symposium on Trade Efficiency to be held in Columbus, Ohio, in October 1994.

Chapter I

TRADE POLICIES, STRUCTURAL ADJUSTMENT AND ECONOMIC REFORM: INCREASED PARTICIPATION IN INTERNATIONAL TRADE IN GOODS AND SERVICES BY DEVELOPING COUNTRIES AND ECONOMIES IN TRANSITION: SOME PROBLEMS AND OPPORTUNITIES

(Agenda item 2)

38. For its consideration of this item, the Board had before it the following documentation:

> "Trade policies, structural adjustment and economic reform: increased participation in international trade in goods and services by developing countries and economies in transition: some problems and opportunities", report by the secretariat (TD/B/40(2)/7); and "Statistical Annex" (TD/B/40(2)/7/Add.1).

Consideration in Sessional Committee I

39. The **Director of the International Trade Division** introduced the report and statistical annex prepared by the secretariat. The report sets out the issues and problems faced by developing countries in their efforts to participate in international trade. It also deals with the difficulties encountered by economies in transition in attaining full participation in international trade. The main themes addressed included: the process of integration into the international trading system and the international support required; trade among economies in transition; and, trade and investment cooperation between developing countries and economies in transition. In its analysis, the secretariat had also sought to take account of the diversity of situations in the various countries involved.

40. As regards enhancing the participation of developing countries in the international trading system, the report had attempted to place this discussion within the continuity of earlier discussions of the Board on this agenda item. The Board had also made important recommendations regarding the behaviour of large economic groupings with a view to enhancing their positive effects and averting any diversion of trade of developing countries. The Uruguay Round had brought about a substantial extension of the multilateral trading system, moving from concern for trade in goods to embrace a much wider perspective, extending beyond market access to trade in services, intellectual property rights and internal policy discipline. The Uruguay Round results, once implemented, would substantially strengthen multilateralism, international discipline, predictability and security and all countries would benefit, in particular the smaller and weaker countries participating in international trading relations. Further improvement of market access for developing countries within the Generalized System of Preferences (GSP) was important.

41. On the subject of the participation of economies in transition in the international trading system, it should be noted that the economic reform process in Eastern and Central Europe had taken various routes, advancing at different speeds in the individual countries. By focusing attention on trade

and investment issues of major relevance for the transformation process, as well as for the foreign partners, account could also be taken of the new way of treating by substantive area the subjects related to economies in transition within UNCTAD (e.g. macroeconomic policies, privatization and technology). This session of the Trade and Development Board was the first to treat trade issues involving economies in transition since the Conference at Cartagena, but the subject was not altogether new to UNCTAD. It therefore appeared consequent to discuss and assess the changes in trade and trade policies of economies in transition and the policy responses to these changes from major neighbouring and other developed partner countries. Several countries in this group had made substantial progress in their trade and investment policies. However, achievements in terms of effective trade expansion remained mixed, as had overall performance. While open and favourable trading conditions on major markets would be the best form of international support to underpin successful reforms, important limitations existed regarding the response from the international trading community, as well as regarding market access to major export products of these countries at bilateral, regional or multilateral levels. Hence normalizing the treatment of these countries in the multilateral trading system was an urgent task; this included addressing questions of anti-dumping, safeguards and access conditions. Investment in the productive sector needed to be intensified. Foreign direct investment was looked to as a major vehicle for spurring information transfer. This would occur through its potential to propel technological change, new management and organization principles, and the opening of new export markets and distribution channels. UNCTAD could assist economies in transition in all these areas. The combined effects of economic reforms and the collapse of old State structures were largely responsible for the drastic weakening of production and gross national product in several economies in transition, affecting especially intratrade. Meanwhile, only foreign trade and economic relations with Western European and other developed countries had been progressing rapidly, despite the importance of the other transition markets. There was an urgent need to assist the economies in transition in strengthening their policy instruments and the design and implementation of their mutual cooperation and integration arrangements.

42. In only a few instances had the developing countries been able to initiate new and dynamic exports to the countries in transition, notwithstanding the potential for substantial trade between these two groups of countries in the medium term. A revival of mutual trade and economic cooperation required progressive improvement of conditions for such cooperation. Relevant measures included, among others, application of liberal policies to mutual trade and investment; improvements of national policy instruments to facilitate payments, financing and risk guarantees; promotion of joint ventures and technological cooperation; agreements for investment cooperation and avoidance of double taxation; and the strengthening of cooperation between business organizations including emerging small enterprises. Economies in transition should aim at further improving their GSP schemes and liberalizing their foreign trade for exports from developing countries. International support and technical cooperation could help inspire new dynamism in trade and economic cooperation between economies in transition and developing countries. UNCTAD could play an active role in these endeavours through, inter alia, organizing governmental consultations on relevant issues of trade, investment and finance, mobilizing international

support and providing technical cooperation in its areas of specialization. UNCTAD was ready to intensify its support of trade and economic cooperation between economies in transition and developing countries, particularly in view of the very important role assigned to it by the Cartagena Commitment.

43. The representative of the Commission of the European Community, speaking on behalf of the **European Union**, noted that the UNCTAD secretariat's report had aimed at giving very comprehensive coverage to the existing problems, with the result that the depth of the analysis had suffered. The remedies proposed had not been clearly linked to the problems raised. This reflected a certain élan on the part of the UNCTAD secretariat with regard to the progress of the developing countries and the countries in transition in terms of their participation in international trade. While sharing the same concerns, the European Union nevertheless believed that patience was necessary. The concept of transition implied an evolutionary process, to be implemented step by step, so as to mitigate the risks of counter-shocks. The parts of the report dealing with the conclusion of the Uruguay Round and describing conditions of market access to the European Union had presented too gloomy a picture. In the framework of the European Union's import regime reform, most of the residual national quantitative restrictions predating the accession by certain countries to the Community had been abolished. The remaining restrictions applied only to textile products and to a very limited number of products originating from China. Moreover, new rules had simplified import procedures; this would benefit both the developing countries and the countries in transition. The need for external support, including financial assistance, was undeniable. However, considerable resources had already been allocated. The recent export and import performance of some Central and Eastern European countries and Russia vis-à-vis the European Union was all the more impressive as these results had been achieved during a time of profound change in the structure of trade. While, as the report had emphasized, these traders would probably not find ready outlets in other regions, their exports to the European Union were certainly an exception to this rule. Indeed, their exports were going mainly to the developed countries. The European Union was currently absorbing half of the exports of Hungary, Poland, the Czech Republic and Slovakia. Moreover, the exports of these countries grew in 1993 in spite of the overall decrease in European Union imports. Quite understandably, this evolution had raised tensions in certain markets which also had to be addressed.

44. With regard to the renegotiation by certain countries in transition of their protocols of accession to the GATT, if the international trading system continued to allow within the Uruguay Round negotiations special conditions to apply to the State trading countries, this should not be a cause for concern in the countries in transition. To the extent that they were engaged in eliminating the planned economy system, the provisions concerning State trading countries did not apply to them. However, pending completion of this process, they should not yet be considered as normal trading partners with which to conduct trade relations on the basis of unconditional MFN treatment. Moreover, since the agreements on trade relations between the European Union and the Eastern and Central European countries in transition had been concluded only recently, immediate reopening of negotiations was excluded. The secretariat report had not put sufficient emphasis on the support given by the European Union to promote the development of the Central European Free

Trade Arrangement. Referring to the secretariat's suggestion to expand the PHARE and TACIS programmes to cover the expansion of trade and investments between countries in transition and developing countries, it would be advisable to focus instead on how to maintain these programmes, as both groups of countries were already beneficiaries.

45. Speaking on behalf of the **Nordic countries** (Denmark, Finland, Norway, Sweden) the representative of Finland said that these countries had been encouraging increased participation in international trade by developing countries and economies in transition. It was important also to promote direct commercial links between the developing countries and the economies in transition. An example of useful and practical work in this field is the Trade Point programme of UNCTAD as well as the activities of the International Trade Centre. It was satisfying to see that a number of countries in transition had adopted or confirmed their GSP-schemes in favour of developing countries. Likewise, the positive efforts to revitalize on the basis of market criteria some of the previous trade flows between the economies in transition were most welcome. Nevertheless, increased participation in international trade of these countries could hardly solve the special problems of the low income countries. The question of how to reverse the marginalization of the low income countries in international trade deserved priority attention. As for the Uruguay Round, the results would prove to hold value for the economies of the developing countries and lead to stability and predictability. The view expressed in the secretariat's paper, that the conclusion of the Round needed to be complemented by substantial improvements in generalized system of preference schemes, had been, he felt, slightly overstated. Conversely, in the conclusions, less attention had been devoted to internal factors that influence economic reforms and structural adjustments both in the economies in transition and in developing countries although useful reference to the success stories of the East Asian countries had been made as well as to the reform process and successful reorientation in foreign trade of some of the economies in transition. In the formulation of policies in the low income countries, these factors could prove highly relevant if taken into account. As the reform process in the economies in transition was far from complete, the need for meaningful coordination and division of labour among the multilateral organizations and bilateral partners ought to be stressed.

46. The spokesman for the **Asian Group** (India), observed that the subject under discussion was highly topical as it was being raised on the heels of the conclusion of the Uruguay Round. The challenge before the international community was how the expected expansion of world trade could be equitably shared as this alone would lead to sustainable growth. A large number of developing countries were undergoing a process of wide-ranging economic reforms at tremendous cost, and it was hoped that these reforms would result in increased efficiency in the allocation of resources. Similar far-reaching structural changes were taking place in the countries in transition, as they moved towards greater economic integration into the world economy. Trade policy reforms in developing countries would require complementary international support, in the form of improved market access and increased flows of investment, technology and financing. While conclusion of the Uruguay Round negotiations would provide a more stable multilateral trading framework, trade barriers in items of interest to developing countries would

remain high. The Uruguay Round therefore needed to be complemented by a substantial improvement in the GSP. The process of economic reforms and liberalization in the developing countries and the countries in transition had provided increased opportunities for all through expansion in world trade. It was in the common interest that this process advance and be given the necessary support to ensure its success. Developing countries suffered from serious supply-side constraints as the result of inadequate investment funds, insufficient development of human resources and lack of technological capacity. International support to overcome these impediments would also be useful in mitigating (through safety nets) the adverse effects of trade policy reforms on labour. The restructuring and liberalization process hinged on the developing countries being able to earn sufficient foreign exchange to finance vital imports as well as to return borrowed funds. Market access for their exports was essential.

47. Developing countries counted on the conclusion of the Uruguay Round as leading to a rule-based, predictable, non-discriminatory multilateral trading system. Developed countries could further help by seeing how the benefits to developing countries could be complemented and enhanced by widening the product range and simplifying the GSP schemes. The tarification of agriculture and the integration of the multifibre arrangements within GATT had provided an opportunity for new products to be considered under the GSP schemes. Recent advances in the schemes for regional integration would provide further opportunities. However, care must be taken that integration did not divert either trade or investment. In this context, the conclusions put forward by Committee I at the first part of the fortieth session of the Trade and Development Board were relevant. In order to encourage participation of developing countries in international trade, it was important to make every effort to discourage the use of non-tariff measures and the use of anti-dumping and countervailing duties. It was noteworthy that the economies in transition had made tremendous efforts towards economic reform and liberalization at great social and economic cost. The disruption of their traditional trade linkages had adversely affected the exports of some developing countries which had earlier enjoyed close trade links with them. Additional resources provided to the countries in transition would enable them to complete their process of transition. UNCTAD's advisory role and technical services could benefit the developing countries and countries in transition through the identification of trade and investment opportunities, including joint ventures. The help of the developed countries was sought in overcoming the problem of trade financing which at present was hampering the growth of trade between developed and developing countries. Additionally, untying of bilateral and regional credits in favour of procurement from developing countries could advance the integration of both into international trade.

48. The representative of **Chile** referred to the conclusions reached at the thirty-ninth session of the Trade and Development Board, whereby reforms in developing countries, building export-capabilities and strengthening international competitiveness had been set as long-term objectives. The same approach was valid for the economies in transition. The success of reforms depended on adequate international support, including cooperation in promoting foreign direct investment and technology transfer. Open markets were likewise indispensable for the success of reform measures; there was a need for commitment and concerted action by the international community to guard

against protectionism. The use of anti-dumping and countervailing duty measures held inherent risks because even when no definitive duties were levied, the opening of inquiries and the imposition of provisional duties posed a serious hindrance to trade. This situation deserved special attention by the Board. Indeed, the issue merited treatment in a separate chapter in future reports by the secretariat.

49. Turning to the reforms in the economies in transition, he said that in spite of progress made by some of these countries, the observed reversal of the liberalization trend in the direction of tariff increases and application of non-tariff measures, as indicated in the secretariat's report, was a matter of concern. The economies in transition should be encouraged to persist in their efforts to make their products more internationally competitive. With regard to the prospects for increased trade with developing countries, maintaining a liberal and open system would lead to mutual benefits. In order to promote greater trade with developing countries, particularly the least developed, the economies in transition should improve or expand their GSP schemes and try to stabilize their preferential tariff regimes. The development finance resources flowing from industrial countries to the economies in transition should comprise additional flows and never detract from resources allocated to developing countries. In closing, he noted that the benefits of an open and transparent trade policy had been confirmed in his country: more liberal and non-discriminatory trade remained the best option and first priority.

50. The representative of **the Former Yugoslav Republic of Macedonia** praised the report on trade policies prepared by the UNCTAD secretariat for describing in an action-oriented manner the need for liberalization of trade, improved market access for all countries, liberalization of financial flows, increased foreign direct investment, membership of all States in the future World Trade Organization, strengthening of international cooperation, and sustained pursuit of the transition reforms. He said that there was no alternative to the process of economic transition which must continue until the countries of Eastern and Central Europe had been fully integrated into the world economy. Speaking about the situation in his own country, which was both a European developing country in transition and a land-locked country, he expressed satisfaction with the peaceful way in which independence had been achieved. However, there had been two particularly negative external factors which had impacted on his country: the United Nations embargo against the Federal Republic of Yugoslavia and the embargo against his country imposed on 16 February 1994 by the Government of Greece. His country held that the latter had been imposed by the Greek Government with the aim of destabilization, thus threatening peace in the region. He thus appealed to the international community to intervene by calling for abolition of the Greek embargo. In this UNCTAD had a special role to play with regard to its efforts in favour of land-locked countries. On the subject of rights of access to the sea for land-locked countries, his delegation was considering to propose a draft decision by the Board. In closing, he underlined that his country would like to have with Greece the best possible relations, as good neighbours, based on mutual respect.

51. The representative of **Bulgaria** explained that the transition process in her country was encountering extreme difficulties. A dramatic fall in

domestic industrial output had led to a drastic drop in living standards. Gross domestic product had fallen to around US$ 750 to US$ 950 during the last two years. This had coincided with an exceptionally unfortunate international environment. The Bulgarian economy had been severely damaged by international sanctions against Iraq, the Libyan Arab Jamahiriya and the former Yugoslavia. The war in the latter country had also created tremendous difficulties of access of Bulgarian goods to markets in Western and Central Europe. Foreign investments in Bulgaria were still insufficient. The debt problem remained a restrictive factor in financing restructuring and reforms. Integration of Bulgaria into international economic organizations had not yet yielded tangible results. Tariff and non-tariff barriers in some developed countries rendered access to new markets even more difficult than before.

52. Nevertheless, there had been important achievements. The establishment of a modern legislative framework for a market economy was the most important task for the Government and Parliament. A number of laws and regulations had been adopted. A comprehensive programme of economic reform had been launched in 1991, aimed at stabilization, liberalization of trade and gradual privatization of the economy. It was already having positive results. Inflation had declined and the private sector had begun to develop. In March 1994, Bulgaria for the first time since reforms began had achieved an increase in industrial output. As a further way to mobilize the reform potential of the Bulgarian economy, the Government intended to continue active cooperation with international economic organizations within the United Nations system, including UNCTAD. Bulgaria was widening its participation in international trade and financial institutions. It had become a member of the International Monetary Fund and the World Bank. It was a founding member of the European Bank for Reconstruction and Development (EBRD). Bulgaria was making substantial efforts to integrate itself into European and world economic structures by, inter alia, signing an agreement of association with the European Union and the Free Trade Agreement with EFTA States. In compliance with the GATT rules, Bulgaria had taken further steps towards unilaterally liberalizing its foreign trade regime. Although Bulgaria had not been a participant in the seven-year marathon negotiations of the Uruguay Round, it was carefully studying the outcome in the framework of the ongoing negotiations on accession to GATT-47 and to the future World Trade Organization. The documents prepared by the secretariat on the subject under discussion had proved very useful; further technical assistance from international sources, including from UNCTAD, would be highly welcomed.

53. The representative of the **Russian Federation** said that successful economic reform of his country would, to a large extent, depend on its integration into the world economy and the possibilities to expand participation in international trade. There were many hurdles. With regard to the current state of economic reform in Russia and its short-term prospects, in the period 1993-1994 the Government's efforts had been concentrated on the conduct of moderately stringent financial and monetary policies aimed at reducing inflation, stimulating investment, continuing privatization of State enterprises and further liberalization of external economic activities. These measures had led to sweeping economic changes, notably the expansion of the non-State sector. The inertia of the economic downturn had not yet been overcome. Gross domestic product and industrial output had decreased in 1993 by 12 and 16 per cent, respectively, over 1992.

The high inflation rate together with the contraction in output had negatively affected investment and, in particular, had depressed self-investment for restructuring enterprises and other economic entities. This was why the Government had set as a priority for 1994: to combat inflation and to create conditions for stabilization of production, along with acceleration of institutional and structural changes. The objective was to reduce monthly rates of inflation to 7 per cent by the end of 1994.

54. The Government of Russia intended to initiate the implementation of those aspects of structural policies related to reorganization of inefficient enterprises or changes in specialization, liquidation or privatization, taking into account the social, economic and financial implications of such policies. In this context, the mechanism of investment auctions would be widely used. Another aspect of reform policies was development of free competition and entrepreneurship without State interference in producers price formation (with only a few exceptions). Reforms at this stage were aimed at increasing the efficiency of the system of social security, especially as regards socially vulnerable population groups. The Government also intended to pursue further liberalization of foreign trade mechanisms, consisting of putting in place a market-oriented legal system for external economic activities, while taking into account principles and rules of GATT; the list of dutiable imports would be further curtailed; this would be accompanied by a substantial decrease of export duty rates in 1994 and their eventual total elimination. In addition, there would be: refinement of import tariffs, as the main instrument for regulation of import flows; less governmental participation in export-import operations; further contraction of administrative measures affecting exports; stimulation of foreign direct investment, involving completion of the establishment of a favourable legal environment.

55. The full-fledged membership of Russia in the GATT/WTO was also considered to be an important element in the reform of external economic relations. Non-participation in the multilateral trading system considerably limited Russia's exports of goods and services. Russia's accession to the GATT/WTO would make the multilateral system more universal and balanced, and would expand the possibilities for cooperation, including that with developing countries. In this context, UNCTAD's contribution to Russia's integration into the international trading system by implementing a UNDP/UNCTAD project in support of Russia's accession to the GATT was most welcome. As for the trade problems among the economies in transition, trade relations had departed from past practices of artificially stimulating mutual deliveries of uncompetitive goods. This transition process was almost completed. Russia's economic relations with countries in Central and Eastern Europe would soon reach a new qualitative level, based on internationally recognized rules and disciplines.

56. On trade with developing countries, in 1993, the share of developing countries had increased in both Russian imports and exports, as compared with 1992. Trade in volume terms was also gradually being restored. Although trade relations with developing countries were conducted on the basis of economic interests and mutual advantage, Russia had granted preferential trade treatment to these countries and exempted goods originating in the least developed countries from customs duties. More effective external support measures would have enhanced Russia's own efforts to restructure its economy. He noted with satisfaction that a number of developed country trade partners

had provisionally included Russia in their GSP schemes and were providing technical assistance in order to support economic reforms. It was not clear, however, why many of the same countries were maintaining trade policy instruments created under political and economic circumstances of a totally different historical period.

57. The representative of **Ethiopia** noted that the report by the UNCTAD secretariat, while reflecting the existing economic challenges to the developing countries and the economies in transition, did not meet the expectations regarding information on the least developed countries. While the analysis of trade within economies in transition had been adequate the trade situation within developing countries, particularly the least developed countries, including African countries, could have been more extensive. The latter countries, for example, were currently engaged in establishing their own economic bloc, the African Economic Community (AEC). The establishment of the AEC as a means to promote the participation of African countries in international trade merited closer attention. Since the collapse of the socialist economic system, not only the countries of Eastern Europe but also African countries had been undertaking economic reform. The Transitional Government of Ethiopia had launched a major economic programme to introduce a market economy. The private sector was being encouraged and access to social services had been improved, aimed at poverty alleviation. Progress had been made in establishing macroeconomic stability. Priority objectives for investment had been set. Accordingly, health care, education, rehabilitation and selective areas of infrastructure of paramount importance for economic recovery had been defined by the Government as priority areas. The Government had taken a number of steps to implement the newly adopted economic policy. Thus, the devaluation of the local currency, removal of constraints on domestic and foreign investors, legislation permitting the establishment of private banks and other financial services, and the shift of government expenditure from defence towards social and economic sectors were some of the measures taken.

58. Now that the developing countries, particularly those in Africa, were undertaking deep economic reform, UNCTAD in its reports could show how the international community would eventually profit from increasing its financial and technical assistance, as losses in the countries' terms of trade constituted a multiple of the aid increment. As to foreign direct investment in Africa, it remained very low, although peace and stability prevailed, as was clearly the case in Ethiopia. UNCTAD should play a significant role in assisting the launching of multinational projects in such fields as transport, communications and effective promotion of greater foreign direct investment. UNCTAD could also strive to help establish linkages between African countries and countries in other regions. UNCTAD should use its expertise to support the least developed countries in their adjustment efforts. UNCTAD should safeguard such mechanisms as the generalized system of preferences while resisting any steps which would erode it. It was important that the international community at large support indigenous institutional formations such as the AEC, as these groupings were important in coping with the challenges of the future.

59. The representative of **Hungary** expressed overall satisfaction with the UNCTAD secretariat's report under this agenda item but noted that differences

among individual countries had not been reflected in the conclusions reached and the possible areas for international cooperation proposed. He then outlined the present stage of transformation in his country. The establishment of a legal and institutional framework for a market economy - including a transparent trade regime - had been basically completed. For smooth operation, some further improvements in these market instruments might follow. Hungary had been a contracting party to the GATT since 1973 and its accession had been based on tariff concessions. The Final Act of the Uruguay Round would further enhance market access possibilities for Hungarian exports as well as for imports from its trading partners. Hungary had concluded the so-called Europe Agreement with the European Union and free trade agreements with the EFTA States and a number of countries in the region. Notwithstanding these advances, several external factors, like the loss of some of Hungary's traditional markets, the worldwide economic recession, and the economic consequences of the United Nations embargo measures had exacerbated the difficulties of the transformation process. Market access possibilities of Hungarian exports could be improved. In 1993, Hungary's trade balance had deteriorated. Imports had increased dynamically but export performance was well behind that of previous years. Trade with developing countries and the countries of Eastern and Central Europe in transition had been less affected by these changes. The Hungarian Government continued to apply the Generalized System of Preferences (GSP) for imports from developing countries which covered almost all imports from the beneficiary countries. Imports from the least developed countries entered Hungary duty free. Further export prospects for developing countries existed in Hungary, since these countries had not yet fully utilized all the new possibilities arising from the transformation, such as the liberalization of the foreign trade regime, development of the new financial framework, elimination of formal State monopolies and expansion in the number of enterprises engaged in foreign trade. In order to ease the difficulties arising from problems of trade finance, Hungary had reinforced the operation of the Export Guarantee Institute; an export credit bank was also being established. Foreign direct investment was playing an important role in the transformation process. The value of foreign direct investment in 1993 had reached US$ 2.3 billion, surpassing the 1992 figure of US$ 1.5 billion. This flow should by no means be considered as depleting resources available to developing countries. Any attempt to revive old forms and structures of trade among countries in transition would be quite misplaced. Trade policies, priorities, utilization of foreign aid and technical assistance were subject to the autonomous decision of each Government. The best possible way to integrate developing countries and countries in transition into the world economy and expand trade among them would be to encourage the development of competitive economies, the reduction of trade barriers, and improved market access.

60. The representative of the **Czech Republic** said that the report prepared by the UNCTAD secretariat offered a good basis for discussion. As the general conclusion had stated, the transition process in the various countries of Central and Eastern Europe had begun at different times and from different starting points with regard to production and foreign trade structures. It was likewise proceeding according to different strategies and hence its progress varied among the countries involved. The Czech Republic was quite often referred to as one of the countries which had achieved encouraging results in the transformation process. These results included progress in

macroeconomic stability accompanied by the curbing of the inflation rate, a balanced State budget, a surplus in the current account balance and a low rate of unemployment. The decline of gross domestic product had ceased and the revival of economic growth was anticipated. The restructuring process was still strongly supported by the population. Liberalization of foreign trade had been a cornerstone of economic reform in the Czech Republic. The country had adopted the legislation and foreign trade regime of its predecessor and continued the policy of opening up its economy to world trade and creating conditions for deeper integration into the multilateral trading system. As a result of reforms, the foreign trade regime of the Czech Republic had become one of the most predictable in the world. The weighted average of customs duties amounted to only 5.7 per cent. In industrial products, the average tariff incidence was even lower. The application of non-tariff measures was extremely limited. The Czech Republic had also maintained a general system of preferences which provided for preferential treatment to imports originating in developing countries. The opening of the Czech economy and the liberalization of trade would be further consolidated by the results of the Uruguay Round. At the same time, the Czech Republic expected that the multilateral trading system and the developed countries would be more responsive to the country's efforts to implement sound domestic economic and financial policy and to better use comparative advantages.

61. The transformation process of the Czech economy and of other countries of Central and Eastern Europe offered increased market opportunities for trade partners, including developing ones, notwithstanding some short-term problems in trade with the latter. The Czech Republic's access to eastern and developing economies' markets was deemed a comparative advantage. The shift from a limited number of large monopolistic foreign trade organizations to thousands of small and medium-size autonomous enterprises had enlarged the opportunities for foreign trade and economic cooperation. The Czech Republic attached importance to mutually beneficial trade and economic cooperation with a growing number of countries in Asia, Africa, the Middle East, Latin America and the Caribbean. The developing countries should be encouraged to take more initiatives in this regard. New trade agreements had been negotiated and signed with India, the Islamic Republic of Iran, China and Egypt while others were currently under preparation. Attention would be given, inter alia, to the revival of cooperation in the delivery of complete production units.

62. The representative of **Australia** stated that the conclusion of the Uruguay Round would assist all countries to grow and develop. While some developing countries had strengthened their democratic institutions and made economic progress, others had experienced social and economic crises. The difficulties of restructuring economies in transition had led to an increase of their trade with developed countries but not less so with developing countries. Owing to comprehensiveness and balance, the outcome of the Uruguay Round would be positive for all countries. Concerning the existing opportunity for expanded trade between economies in transition and developing countries in the medium term as the secretariat's report had suggested, if these opportunities were to be seized, a framework of national policies and cooperative measures needed to be established. UNCTAD could play an important role in facilitating this process by providing a forum for intergovernmental consultations and by offering timely analysis. She suggested that it be borne in mind when undertaking such analyses that, while some countries might feel that they had

benefited less from the Round than others, all countries in the long run would benefit from a more stable and more liberal international trading regime for global economic growth. Australia had demonstrated its continuing commitment to encouraging the process of structural adjustment and economic reform in developing countries and in the economies in transition, as well as in the developed countries. In addition to the multilateral assistance, an Australian programme of training for Eurasia had been launched to deliver technical assistance to the economies in transition in Central and Eastern Europe, the Baltic region, Russia and the other newly independent States. The programme included a training course in Australia for middle-level managers and funds for trainees to conduct courses in recipient countries or Australia. This included small business training for women, farm management, seminars on the GATT, management of an employment service, mining industry economics and stock market management. Australia was also playing an important role in assisting developing countries to adjust to the new international trading environment as well as through its support for trade liberalization.

63. The representative of Egypt voiced appreciation for the UNCTAD secretariat's report but noted that it tended to concentrate on countries in transition, and that most of the recommendations for technical cooperation had been directed towards these countries. The recommendations should not be to the detriment of the interests of developing countries vis-à-vis technical cooperation in UNCTAD and additional financial resources should be found for their implementation. While recognizing the importance of enhancing trade relations between developing countries and countries in transition these recommendations should be further amplified, with the possibility of organizing workshops in the fields of trade, finance, technical cooperation and investment.

64. It was also important to identify areas of comparative advantage for developing countries in terms of exports to developed economies. It would be useful if trade niches between developing countries and countries in transition could likewise be identified. Moreover, the expansion of regional trading arrangements among countries in transition and developed economies should not have a trade diverting effect on the exports of developing economies. Any trade diverting effect should be evaluated, with the findings presented to the next session of the Trade and Development Board. As anti-dumping duties and countervailing duties had increased three-fold in developed economies since 1990 and more than half of the relevant cases had been initiated against developing countries, it would be useful for the UNCTAD secretariat to undertake a thorough analysis of these trends. It would also be useful if sectoral structural adjustments in some sectors in developing economies could be closely examined, especially those subject to non-tariff measures. As a result of tariff reductions in the Uruguay Round, a weakening of GSP schemes of developed economies would follow. Therefore, Egypt supported the idea that the Special Committee on Preferences should take rapid action to improve the GSP schemes in favour of developing countries' exports. It might also prove necessary to alter the schemes applied by countries in transition in light of the results of the Uruguay Round, new accessions to the future World Trade Organization and regional trading arrangements between countries in transition and developed economies. Egypt was looking forward to the success of the transformation process under way in countries in transition and anticipated exploring further avenues of economic cooperation between

developing countries and countries in transition in view of the huge trading potential of the latter. The trade of developing countries would be enhanced by a strong linkage between macroeconomic, sectoral and trade policies. Further diversification of exports was crucial to developing countries that relied on a few commodities for their export trade; however, this diversification had to be accompanied by improved access to the markets of developed economies.

65. The representative of **Japan** paid tribute to the many developing countries which had undertaken determined and painstaking efforts towards structural adjustment. Japan recognized such adjustment efforts of developing countries as a global challenge. Accordingly, it was playing a leading role in supporting structural adjustment in developing countries through the International Monetary Fund and the World Bank, which were central to the international support in this respect. In addition, Japan was supporting developing countries' adjustment efforts through several bilateral economic cooperation schemes. The Government of Japan had decided to extend a third round of such assistance (worth some US$ 650 to US$ 700 million) in the fiscal years 1993 to 1995. Expanded markets for exports of developing countries held great importance for trade liberalization and economic reform of such countries. In this context, improved access to the Japanese market of developing countries' products was being encouraged in a series of market-opening initiatives undertaken recently by Japan. As a result, Japanese imports from developing countries had increased steadily from 1986 to 1993, reaching US$ 120 billion. The comprehensive package of economic measures decided in February 1994 was expected to consolidate this trend further. As far as the GSP scheme was concerned, the Government of Japan would welcome initiatives addressing the reduced GSP margin of the post-Uruguay Round and indeed Japan had already taken steps in this direction in announcing reduced or new GSP rates for 12 tropical products. The integration of the economies in transition into the world economy was also a challenge of a global nature. The difficulties which these economies faced were daunting and their efforts to overcome them highly commendable. The situation in the economies in transition was, in a way, a reflection of today's world where economic interdependence had deepened on the one hand while political uncertainty had increased on the other hand. Japan had been making active contributions to international cooperation in support of the economies in transition within both bilateral and multilateral frameworks. He emphasized, however, that support for the economies in transition should not affect the high priority given to development cooperation with developing countries. Fuller integration in the multilateral trading system was the best way to promote the trade of developing countries and economies in transition. Japan would continue to do its utmost to maintain and strengthen the multilateral trading system. The conclusion of the Uruguay Round was indeed the single most important factor which would contribute to the strengthening of the open multilateral trading system. It was extremely important to make sustained efforts to implement the agreements negotiated within the Round. The implications of regional integration arrangements involving major trading nations to the trade of developing countries and economies in transition could not be neglected. High priority should be given to the issue of regional integration in the overall work programme of UNCTAD after the Mid-term Review.

66. The representative of **Belarus** said that the discussions on agenda item 2 confirmed the importance of a multilateral approach to global trade and economic issues and of the machinery of the United Nations system, including UNCTAD. His delegation agreed with the main conclusions of the secretariat's report; the world economy was increasingly integrated, and countries which did not participate in it sufficiently could lose the advantages inherent in the international division of labour. At the present stage of its reform process, Belarus was seeking to achieve stable economic growth, promote privatization and the private sector, and provide a social safety net for the transition period. The new Constitution, adopted on 15 March 1994, would help accomplish these tasks, and it provided guaranteed equality of treatment for all forms of property. The policy of the Government of Belarus was to accelerate market reforms through macroeconomic stability and structural adjustment. The latter was directed at economic recovery on the basis of more effective use of resources through parallel promotion of competition and private sector development. In 1994, the Government of Belarus would be seeking to: accelerate the privatization of small enterprises, with up to 50 per cent of trade and service enterprises to be privatized and at least 50 large State enterprises to be transformed into joint-stock companies; pursue an active anti-monopoly policy; and provide State support for entrepreneurship, the intention being that the private sector would develop rapidly enough to compensate for the inevitable contraction of the State sector; increase economic efficiency; and ensure maximum employment. The Government of Belarus was convinced that the process of creating and strengthening market mechanisms and political democratization should be carried out in close cooperation with the international community and its multilateral institutions such as UNCTAD, IMF, the World Bank and GATT. Belarus attached great importance to the strengthening of cooperation with such institutions. Finally, he stressed that his Government welcomed the results of the Uruguay Round. Belarus had activated its collaboration with GATT and aimed at acceding to it as a full member.

67. The representative of **Slovakia** stated that economic developments in his country had been affected by the separation of Czechoslovakia, the change in the domestic currency, a vast tax reform and the strong world recession. The creation of an independent monetary system had necessitated a new monetary policy. Foreign exchange reserves had been unstable; the currency devaluation carried out had not as yet sufficiently improved the balance of payments nor supported more dynamic expansion of exports. In 1993, exports had fallen more significantly than imports. The Government of Slovakia had introduced the "Concept of Foreign Trade of the Slovak Republic" of which the export promotion programme was one of the major components. Greater attention would be paid to strategies to overcome both internal and external barriers to international trade. The following internal trade barriers were cited: (a) insufficient existing infrastructure for export promotion; (b) need to improve export financing facilities within the banking system; (c) need for more efficient links with foreign capital and financial markets; (d) lack of credit on competitive terms; (e) need to improve and extend export credit insurance facilities; (f) insufficient foreign direct investment; and (g) need to improve advisory services in support of the export sector. Furthermore, an export promotion centre would be established by the Government. Greater attention would also be paid to a better use of foreign aid for training foreign trade experts. Moreover, foreign trade transactions would be made

more efficient in the context of the EDIFACT project. Customs procedures would be simplified. Finally, a network of foreign trade representatives would be established abroad. Being a small country, Slovakia had a great need for an open national economy, and considered international trade to be one of the best ways to accomplish the process of transformation to a market economy.

68. The representative of **Poland** emphasized that the information provided in the secretariat document had accurately confirmed the signs of Poland's recovery since early 1992. According to a recent IMF assessment, Poland's growth in 1993 was the second fastest in Europe, with a repeat performance expected in 1994. GDP had increased by 1.5 per cent in 1992 and 4.6 per cent in 1993; industrial output, at constant prices, went up by 3.9 per cent in 1992 and 6.2 per cent in 1993. In the first quarter of 1994, industrial output grew at a rate of 10 per cent. This positive performance had stimulated foreign partners to invest in Poland, including participation in privatization. This simply confirmed that good economic prospects were decisive for attracting foreign capital. Poland's recent economic performance confirmed the successful strategy based on a radical liberalization of trade conditions which the country had embarked upon in 1990.

69. Polish authorities were fully determined to integrate the country further into the world economy. Poland had committed itself to important tariff reductions under the Uruguay Round negotiations. The average tariff cut would be 37 per cent for food and agricultural products. The trade-weighted reduction on industrial tariffs was estimated at 38 per cent, with the average level of tariff protection decreasing from the present 16 per cent to less than 10 per cent after the implementation of the Uruguay Round commitments. Poland was convinced that developing countries would also benefit from these tariff reductions. Poland was a participant in regional European integration efforts. In February 1994, the Association Agreement between Poland and the European Communities officially entered into force after the ratification process had been completed by all signatories. In November 1993, the Free Trade Agreement between the European Free Trade Association (EFTA) States and Poland became effective. In December 1992, Poland, along with the Czech Republic, Hungary and Slovakia signed the Central European Free Trade Agreement (CEFTA), in effect since March 1993. These agreements were all aimed at deeper integration of the Polish economy into international trade. Regional integration could stimulate a harmonious global liberalization from which all countries would benefit. There had been also some negative aspects of Polish economic development. One was the growing trade deficit. At the end of the third quarter of 1993, the trade deficit had reached US$ 3.5 billion. A deficit was recorded in trade with all groupings of partners. With developing countries, the deficit was above US$ 0.5 billion. This proved that Poland's trade partners gained more from trade liberalization than did Poland. Hence, Poland was appealing to the developed countries for better market access conditions. Technical and financial assistance alone was not enough. UNCTAD could and should play an important role in enhancing better trade and investment collaboration between developing countries and countries in transition. A good example of such collaboration would be the Workshop-Business Week on trade and economic cooperation between the countries of Eastern and Central Europe and Egypt, scheduled to take place in Egypt in

October/November 1994. Such undertakings, with the participation of UNCTAD experts, could promote more successful collaboration between developing countries and countries in transition.

70. The representative of **Austria** expressed his conviction that countries in transition and least developed countries not only needed financial support but even more so needed technical assistance and, above all, substantial aid for structural adjustment. He welcomed the introduction of market elements into the economies of a number of countries in Eastern and Central Europe which, *inter alia*, had resulted in an impressive growth of Austrian imports from the region. The newly independent States of Central and Eastern Europe, Bosnia-Herzegovina and the Former Yugoslav Republic of Macedonia had been included into the Austrian GSP scheme. However, UNCTAD had originally been created to serve the needs of developing countries and so he supported the statement of the representative of Ethiopia who had criticized the balance reflected in the report of the secretariat regarding least developed countries and economies in transition. Austria was open-minded with respect to the requirements of developing countries and thus had neither quotas, ceilings nor other quantitative import restrictions in its GSP scheme. Neither did it exclude textile or clothing products from GSP tariff treatment. In consideration of the specific problems of the least developed countries, Austria took a second step in 1982, by granting duty-free treatment for industrial items and a 50 per cent tariff cut for textiles and clothing to Group II countries. The total value of actual preferential imports in Austria in 1992 had reached almost six and a half billion dollars, of which Asia took a share of 46.49 per cent. Unfortunately, the least developed countries were generally not utilizing the possibilities offered. Of 47 least developed countries, in 1992 only 19 had seized the opportunity to export to Austria under the GSP scheme. In this connection, the situation of the Asian and the African least developed countries showed that the Generalized System of Preferences could not stimulate their exports unless accompanied by internal measures and a stable political system. In recognition of this situation, Austria had begun to offer some additional programmes for least developed countries. It was of course up to each country itself to benefit from these programmes and, above all, to create the necessary preconditions for steady, sustained economic development.

71. The representative of **China** noted that since the 1980s many developing countries had carried out structural adjustments and economic reforms at tremendous cost. However, with the exception of certain countries in East and South-East Asia, the economic growth in most other developing countries had remained disappointing. Many continued to experience various impediments to their integration into the international trading system. Given the economic strength of developed countries, their high domestic consumption and huge market capacity, the opening up of their domestic markets to developing countries held particular significance for the enhanced participation of developing countries in international trade. However, many developed countries still pursued discriminatory trade policies against developing countries. He called upon the developed countries, in particular the major trading nations, to rescind unilateral and discriminatory trade policies against developing countries, and not to set up new obstacles to their exports.

72. Although the Uruguay Round of trade negotiations had come to an end, the interests of the developing countries had not been fully taken into account or reflected in the agreements of the Final Act. This situation could perhaps be corrected in the implementation of the agreements. Some products where the developing countries enjoyed a comparative advantage - such as textiles, clothing and farm produce - were still subject to quantity restrictions and restrained by high tariffs. Under these circumstances, the Generalized System of Preferences (GSP) was of great significance to the exports of the developing countries. Hence the need for the developed countries to continue the provision of GSP to the developing countries, and to simplify procedures, increase the number of countries providing preferences, expand product coverage and optimize preference-giving schemes. The new World Trade Organization would hopefully attract the participation of more countries for greater universality and representativity. As a full participant in the Uruguay Round, China had been a major contributor and made substantial concessions in order to become a member of the World Trade Organization. As the biggest developing country in the world, China continued to adhere to the policy of economic reform and opening to the outside world, and had made great progress. In an effort to maintain stable, healthy development, the Chinese Government in 1994 had promulgated major reform measures in areas of foreign exchange, finance and banking. These measures would provide an even better environment for countries to expand their trade with China and invest therein.

73. The representative of **Viet Nam** stated that countries engaged in the process of profound economic reforms sought economic development that combined growth and social gains. Although the trend towards a market economy was widely accepted, it could not be considered a panacea. Moreover, the establishment of a fair international trading system, though universally desired, could not by itself induce the leading economic actors to renounce recourse to unilateral measures which preserve their dominant position to the detriment of developing countries. Hence, increased participation of developing countries in international trade implied strengthened international cooperation which would keep countries from imposing their own views and solutions on others. Trade involved competitiveness, comparative advantages and preferential treatment of developing countries. These were assets which must be preserved for the benefit of world trade. The initial results of the economic reform in which his country was engaged were particularly important with regard to growth rate, inflation, trade balance and food supply. Many lessons could be drawn from that initial success. Political and economic stability were intrinsically linked and indeed were indispensable for carrying out long-term economic activities. These were also *sine qua non* conditions for attracting foreign investment. With regard to some specific difficulties since the adoption of economic reforms, the major problem was to set the foundations, build and improve the physical, institutional and legal infrastructure and hence have the capabilities of managing the economy with the country's own human resources trained to this effect. Another matter of concern was management of the financial resources which his country was attracting. UNCTAD's technical assistance during the coming months and years could make a vital difference. Trade policy, structural adjustment and economic reform were components of a process that was closely linked to international cooperation, particularly regional, and to the revitalization of trade and economic links with traditional partners in Eastern Europe.

74. The representative of **Romania** stated that while the participation of developing countries and countries in transition in international trade depended mainly on their own efforts, the external environment and the international community's assistance also played a critical role for the success of this endeavour. Romania's decreased share in world trade in recent years was attributable to a number of factors, including objective difficulties generated by the overall process of transition to a market economy. At the same time, international trade flows had also been to a considerable extent influenced by changes in the international political and economic climate. Romania was making great efforts to increase its participation in international trade and to ensure its enhanced participation in the world economy and the multilateral trading system. The measures undertaken to this end had already resulted in encouraging signs of economic progress. However, in order to ensure increased participation in world trade, Romania was seeking cooperation with its trading partners, initially through enhanced access of Romanian products to foreign markets. The increase of financial and technical assistance, as well as the facilitation of foreign investment in Romania were also important means of attaining that objective. There was a need for intensifying UNCTAD activities aimed at increasing the participation of developing countries and countries in transition in the international trade of goods and services, taking into account the work in this area of other international organizations, including the future World Trade Organization.

75. The representative of **Mexico** observed that world economic activity had moved into a recovery phase but that economic prospects, although encouraging for some countries, were still far from promising for all. The problems of the world economy in recent years had had adverse effects for developing countries where demand for exports was restrained. The deficient economic growth of most developed countries had provoked an increase of unemployment; this had given rise, in turn, to pressures for the erection of trade barriers to defend employment levels. A number of developing countries had become strong proponents of trade liberalization and had contributed to the world economic growth through the application of structural adjustment programmes. It was, nevertheless, necessary to point out that the economic situation of low income countries remained difficult. To overcome these problems, the countries concerned needed, in addition to their own efforts to deepen their structural adjustment policies, the committed support of the international community as shown through a profound liberalization of world trade and better access to the developed country markets. In carrying out the measures recommended in the UNCTAD secretariat's report, the specific requirements and needs of each country should be taken into consideration. Special emphasis should be placed on measures favouring resource and technology transfers and the improvement of the generalized system of preferences. Economic growth of developing countries and of countries in transition along with an improvement of living standards of their peoples was indispensable, as it would help propel the incipient world economic recovery.

76. The representative of the **United States of America** stated that the initiatives of developing countries and economies in transition to implement GATT-consistent economic reforms should be encouraged in order to facilitate their early, closer integration into the multilateral trading system. This included full adoption of the fundamental GATT principles of national

treatment, unconditional MFN and transparency. As a result of the improvements brought about by the successful conclusion of the Uruguay Round, developing countries would enjoy increased trade. This in turn would increase real income and fuel economic development. The United States did not share the view that developing countries would gain less than developed ones: increased global trade would stimulate foreign direct investment and provide opportunities for developing countries to expand their markets in agricultural and industrial goods and services. The Uruguay Round results promised opportunities for all in a global market with a great potential for growth. Staunch support for the multilateral trading system, and all that could be accomplished multilaterally, did not detract from regional agreements which could in fact form building blocks for increased world trade. Regional arrangements could help smaller economies establish regional markets which could eventually expand into global markets, thus providing unique and additional development opportunities for developing countries. Trade policy reforms in the countries of Central and Eastern Europe and the newly independent States required international support, including liberalized market access. There was no justification for the UNCTAD secretariat's conclusion that the United States market was closed to goods from these countries, since barriers to almost all exports from most of these countries had been removed and MFN treatment granted in the same manner. Moreover, the United States had extended GSP to most of these countries, and it had already concluded, or was in the process of concluding, investment treaties with many of them. They would also benefit from the overall trade liberalization resulting from the implementation of the Uruguay Round agreements. Inclusion of the economies in transition in the world trading system was very important and the United States was working both bilaterally and multilaterally to assist these countries in their endeavours to reach this goal.

77. The representative of the secretariat of the **Commonwealth of Independent States** (CIS) said that he was pleased to have been granted observer status. He then provided information about the structure of the CIS and its executive bodies and described the economic situation in the member States. At the highest level were the Council of Heads of States, which holds two sessions annually, and the Council of Prime Ministers, which meets four times a year. The secretariat of the CIS was one of the major executive bodies and was responsible for both the support work and the execution of the decisions taken by the policy organs. On 24 September 1993, the Heads of States signed a treaty creating an economic union based on equality of rights and mutual respect of the sovereignty and territorial integrity of the member States. As a permanent organization of the common economic space, the Economic Union would pursue free movement of goods, services, capital and labour, as well as coordinated monetary, credit, price, customs and exchange policy. The member States guaranteed the free movement of their citizens within the territory of the Economic Union. The Treaty was subject to ratification and was open for adherence. The permanent representative of Armenia to the CIS then took the floor to describe the economic integration of the member States. Some 40 institutions of the CIS had been created with the aim, inter alia, of integration. These comprised, among others, the Inter-States Eurasian Association for coal and metal, the Inter-State Council on anti-monopoly policies, the Economic Court, et al. Economic integration within the CIS was regarded as a vehicle serving not only the interests of member States but also the whole international community.

78. Exercising his right of reply, the representative of **Greece** recalled that the Former Yugoslav Republic of Macedonia had been admitted to the United Nations precisely under this name, after negotiations at the highest level which had resulted in Security Council resolution 817/93. Thus it should use this name and not another. He then referred to the passage in the statement of the Former Yugoslav Republic of Macedonia that mentions Greece and said that the well-known differences between Greece and the Former Yugoslav Republic of Macedonia were not of an economic or commercial nature but purely political. Hence, the measures that Greece had been forced to take as of 16 February 1994 had a predominantly political character. For this reason, the present forum was not the right place to raise such issues. There were other United Nations forums better apt to deal with political questions. Efforts were currently being undertaken at the highest political level to find a negotiated solution to this problem. In closing, he reserved the right to return to this issue at a later stage during the session of the Trade and Development Board, if a more detailed reply were deemed necessary.

79. Exercising his right to reply, the representative of **the Former Yugoslav Republic of Macedonia** stressed that recently, in another forum, the representative of Greece had made a similar statement, incorrectly interpreting the United Nations Security Council resolution and justifying the embargo against his country. On that occasion, his delegation had explained that the language inscribed on the name plate in front of the delegation was not the name of the country, but rather a reference to it. The name of the country was the Republic of Macedonia. In accordance with the Security Council resolution mentioned, the country was fully enabled to use the constitutional name: the Republic of Macedonia. This was the nomenclature which the Government intended to use at all times. While no one could be obliged to use the reference, it was well known that the country had established diplomatic relations with a large number of countries represented in the present forum using its constitutional name. However, the main problem at present was the denial by Greece of the country's right, as a land-locked country, of access to the sea. This right of access to the sea was not only a principle but had a concrete nature with broad implications and could set a very negative precedent in the search for international solutions.

80. The representative of **Greece**, exercising for the second time his right of reply stated that Security Council resolution 817/93 was easily obtainable by delegations and so there was consequently no reason to repeat its contents. As far as the question of access to the sea by land-locked countries was concerned or the measures that Greece had taken since February 1994, these were of a political nature, as already stated previously, and should not be discussed in the present forum.

Action by the Sessional Committee

81. At its 5th (closing) meeting, on 28 April 1994, Sessional Committee I approved the agreed conclusions on agenda item 2 (TD/B/40(2)/SC.1/L.2) and recommended them for adoption by the Board.

Action by the Board

82. The action taken by the Board on agenda item 2 is reported in TD/B/40(2)/24(Vol.I), section I.A. (See agreed conclusions 409 (XL)).

Chapter II

DEVELOPMENTS AND ISSUES IN THE URUGUAY ROUND OF PARTICULAR CONCERN TO DEVELOPING COUNTRIES

(Agenda item 3)

83. For its consideration of this item, the Board had before it a note by the UNCTAD secretariat entitled "Analysis and assessment of the Uruguay Round, in particular in areas of interest or concern to developing countries, and its impact on the international trading system".

84. On 22 April 1994 Mr. Jesus Seade, the Deputy Director-General of GATT, addressed an informal meeting of the Trade and Development Board on the subject of the implications of the signing of the Final Act of the Uruguay Round at Marrakesh, Morocco, on 15 April 1994. Mr. Seade also responded to questions put by the delegations of Bangladesh, Canada, Chile, China, Costa Rica, Zambia and the European Community.

Consideration in plenary

85. Introducing this item and the note by the secretariat (TD/B/40(2)/CRP.1), the **Director of the International Trade Division** said that the Uruguay Round Final Act incorporated agreements which substantially transformed the multilateral trading system to meet challenges and opportunities in an increasingly globalized world economy. In some areas, however, the full results of the Round were not yet known as the negotiations were continuing, in particular on key services sectors and mode of supply of natural persons, in which great economic issues were at stake.

86. He stated that the developing countries had made a major contribution to the success of the Round which had resulted in significant reduction in the flexibility available to them in designing their development policies, as well as in their use of trade policy instruments, to promote their development and their competitiveness in international trade, at the same time that they had adopted export-oriented adjustment policies. Developing countries had accepted rigorous multilateral disciplines, by binding their tariff schedules, by subscribing to agreements on non-tariff measures, and accepting multilateral disciplines in the new areas where the developed countries were in the best position to reap immediate economic gains. Although high levels of protection remained on many goods and services of export interest to developing countries, many of them should be in a position to capitalize on the potential benefits from the Uruguay Round agreements, in particular from tariff reductions, the phase out of the discriminatory regime governing trade in textiles and clothing, the improved disciplines on agricultural trade, the strengthened safeguard clause. However, the overriding benefit accruing to them was the reduction of the scope for bilateral pressures and unilateral action against them, a benefit that would materialize only if the major trading countries genuinely respected the multilateral commitments they had accepted in the Final Act. Moreover, should a comprehensive assessment of the results of the Round demonstrate imbalances in the benefits derived from the

Round, such imbalances would need to be redressed through appropriate action including additional trade preferences, development assistance and debt relief.

87. The outcome of the Uruguay Round established an institutional framework for managing increasingly complex trade relations in a more competitive and integrated world economy. The Final Act was a labyrinth of review mechanisms, special safeguard clauses, notification requirements, thresholds, trigger points, enforcement requirements, Committees and working parties, as well as programmes for reviews and future negotiations. These provided what could be considered as built-in future work programme for the WTO. Many developing countries would be faced with serious challenges with respect to institutional capacity, human resource development and information management. Indeed, their capacity to defend their interests remained a matter of concern, as some including the least developed countries might find themselves having to undertake onerous multilateral obligations, face higher cost of imported food and technology, whilst being unable to translate the expanded market access opportunities into economic benefits. Effective technical cooperation programmes needed to be designed to respond to these new challenges, as well as common mechanisms to share burdens and to utilize opportunities deriving from the implementation of the Uruguay Round results. UNCTAD through its debates, analysis and its technical cooperation programmes had been able to contribute to the identification of the interests of developing countries and to their effective participations in the Uruguay Round. UNCTAD based on its clearer and strengthened mandate including in the area of the interdependence of trade, financial and monetary matters and sustainable development was ready to contribute to the coherence of global policy making and to a stronger role of developing countries within the international trading system.

88. At the Marrakesh Ministerial Meeting a series of suggestions were put forward which could be considered by the Preparatory Committee. It would seem important that such proposals be subjected to constructive dialogue and rigorous policy analysis, with a view to identifying issues of interest to developing countries, and assessing implications for their trade and development. The Uruguay Round experience had demonstrated the need for such intensive consensus-building processes aimed at the formulation of common perceptions before the initiation of negotiation of implementable commitments. In accordance with the Cartagena Commitment, UNCTAD could play an important role at the level of the TDB and its subsidiary organs in such consensus-building process and the effective integration of developing countries in the world economy.

89. The representative of **Argentina** said that the adoption of the Final Act of the Uruguay Round represented the consolidation of multilateralism through the adoption of a new set of rules, and its extension to areas not covered hitherto by multilateral disciplines. The terms of the agreement allowed a step to be taken towards reduction of tariffs in the industrial sector and a broader inclusion of the agricultural sector, the services sector and trade related investment measures. The agreement on the various codes consolidated a wide range of regulations, making international trade transparent and removing discretionality and unilateralism. Of great importance was the agreement on sanitary and phyto-sanitary measures which, for the first time, allowed for recourse to a multilateral authority in cases where agricultural

exports were subject to sanitary measures that were arbitrary or based on questionable scientific evidence. The creation of a genuine World Trade Organization was also one of the positive aspects of the conclusion of the Round. The new dispute settlement mechanism was a particularly successful aspect, although the credibility of the whole system would depend upon the observance and full application of the rulings taken through this mechanism. As for the inclusion of trade and environment in the working programme of the WTO, he expressed hopes for progress in this delicate area, and for recognition that poverty was the main cause of environmental deterioration in developing countries. Such a complex problem could not be resolved through trade sanctions or measures of little economic rationality.

90. In his view, the main shortcoming of the results of the Round was the lack of correlation between the developing countries' contribution to trade liberalization and the new trade opportunities deriving from industrial countries' offers. Another important shortcoming of the Uruguay Round was the limited scope of the agreements in the agricultural sector: the results here were far from meeting his country's aspirations. They represented, in his view, a first step to roll back agricultural protectionism. It was particularly important to extend, in the near future, the commitments reached in this sector. In this process he assigned high priority to the development of multilateral disciplines in the field of credit warranty and finance of agricultural exports. In his view, some of these programmes were becoming a source of distortion and were creating a lot of uncertainty in the productive sector of developing countries.

91. One matter of concern for his delegation was the lack of concrete results in favour of the least developed countries, for which further liberalization of world trade meant less possibilities for receiving special or preferential treatment. It was thus important that the international community establish the appropriate mechanisms to help these countries to find their development path.

92. With regard to future work in UNCTAD in relation to the Uruguay Round agreements, he said that a first and essential responsibility for UNCTAD was to carry out an evaluation of the results and commitments reached, from the perspective of developing countries' interests. With regard to the erosion of preferential margins and the increasing limitations applied in some GSP schemes, he expressed the view that, in the 1996 GSP review, preference-giving countries should try to compensate for such adverse effects through a larger product coverage and simplification of the schemes, with increased transparency and income effectively transferred to beneficiary countries. He also considered that an impetus should be given to the Second Round of Negotiations among Developing Countries in the framework of the GSTP. Finally, he emphasized the work done in UNCTAD in the area of environment, trade and development. This was a useful analytical work that should be continued in an institutionalized framework such as a specific ad hoc working group.

93. The spokesman for the **African Group** (Egypt) said that the results of the last seven and a half years of negotiations in the Uruguay Round would herald a new era of international economic cooperation. There was, however, some anxiety that certain current issues could threaten the well-being of the

multilateral trading system and the sustained development of African countries in particular and developing countries in general. Technical assistance, financial flows and market access were crucial if Africa was to be integrated once more in the world economy.

94. The trade-creating effects of the Uruguay Round would be threatened by the narrow interests of ailing industries. Sectoral structural adjustment had to be applied to both developed and developing economies in order to maintain the wheel of the global economy in motion. Any other approach would postpone the benefits of a liberal economy through new forms of protectionism and restrictive measures that would compound structural problems and hinder the improvement of living standards and growth rates, particularly in developing countries. Unilateralism and extraterritorial application of environmental regulations should come to a halt after the establishment of the Committee on Trade and Environment in the WTO. Any disputes regarding trade and environment should be referred immediately to the dispute settlement mechanism under the auspices of the WTO. He believed that there was no contradiction between maintaining an open and non-discriminatory trading system on the one hand and protecting the environment and promoting sustainable development on the other.

95. A further threat to the new multilateral trading system was the proposal to include labour standards and social clauses in the new system. This proposal would be tantamount to admitting protectionism; furthermore through the back door. It would also infringe upon the mandate of the ILO whose conventions should be enforced without any linkage with trade.

96. He hoped that regional trading agreements would not lead to further trade-diverting effects or lost opportunities contrary to the interests of non-participating countries. He also feared that partially freeing trade in agriculture would have a negative effect on the balance of payments of net food-importing developing countries, and specifically African economies. The distorted situation of agricultural commodities on the world market was due an extended and prolonged resistance of developed economies to sectoral structural adjustment in agriculture. It was crucial that the Ministerial decision of the Marrakesh Conference on measures concerning the possible negative effects of the reform programme be implemented in cooperation with bilateral donors and multilateral finances institutions with a view to compensating net food-importing developing countries.

97. The deteriorating terms of trade of many African economies, which relied essentially on primary commodities for their exports, were likely to worsen in a situation where the increase in the price of their imports would be accompanied by the constant decrease in the price of their exports of primary commodities.

98. Another factor that remained vital in maintaining harmony between the macroeconomic policies and trade policies was the stability of the exchange rates in developing countries. The linkage between trade, money and finance and their role in alleviating the debt burden and poverty were of great importance in the coming period and warranted greater attention in both WTO and UNCTAD.

99. With the implementation of the Uruguay Round Final Act, most GSP schemes in developed countries would probably be eroded. Therefore, these schemes should be adjusted to offset the results of the expected tariff reductions. He proposed that UNCTAD should assist African economies to identify analytically and technically the difficulties and opportunities they would encounter as a result of the Round, particularly as regards GSP schemes. He also stressed the importance of examining the relationship between the trading system and immigration policies; the interaction between trade policies and policies relating to financial and monetary matters, including debt; commodity markets; international trade and company law; the establishment of a mechanism for compensation for the erosion of preferences; the link between trade, development, political stability and the alleviation of poverty; and unilateral or extraterritorial trade measures.

100. The spokesman for the **Asian Group** (Malaysia) said that with the rapid industrialization now taking place in Asia, most countries in this region were integrating into the multilateral trading system and looked forward to enjoying the benefits of the Uruguay Round, especially in the areas of market access in goods and services. The key feature of the Uruguay Round was the creation of the WTO, which would contribute to a strengthened multilateral trading system with more transparent and predictable trade rules. It should not be forgotten that the acceptance of the terms of the Final Act by many developing countries meant that they had to undertake heavy commitments.

101. With the WTO and its integrated dispute settlement system, there should now be no more justification for certain countries to resort to bilateral means to settle trade problems or to undertake unilateral actions such as those under Super 301.

102. It should also be noted that the Uruguay Round had prompted some large economies such as China to consider subscribing to the multilateral trading rules. China's accession to the WTO would make a positive contribution to international trade and had the strong support of the Asian Group.

103. Referring to the immediate task of the WTO in ensuring that the results were implemented in accordance with the rules and disciplines, procedures and the time frames provided for in the various Uruguay Round agreements, he emphasized that the fulfilment of all concessions and commitments in a timely fashion was of paramount importance if developing countries were to enjoy the benefits, particularly in the areas of textiles, agriculture and industrial goods.

104. He also emphasized that the WTO work programme should be confined to the scope and mandate of that organization. The issue of trade and environment was accepted as part of that work programme but it was premature to rule that environment would be a permanent theme in the WTO. In order to ensure that protection of the environment should not be used as a disguised barrier to trade, it was necessary to ensure that the objectives of trade liberalization and sustainable development should be mutually supportive. The Asian Group looked forward to studies, analytical work and technical inputs from UNCTAD on this subject.

105. Expressing the serious concern of developing countries at the recently introduced issues such as labour standards and social clauses, he said that the Asian Group was unsure of the real motives behind the moves to include such issues in the WTO. Countries should not overstretch the competence of the WTO. Attempting to justify the "trade-relatedness" of such extraneous issues did not allay the fears and doubts of developing countries about new forms of protectionism.

106. In the spirit of Cartagena and in the interests of a strengthened multilateral trading system, the Asian Group believed that the implementation of the Uruguay Round results should lead to more stable, secure and predictable conditions for trade based on open markets and strengthened rules. The WTO should not have an overloaded agenda, the priority being to ensure the launching of the WTO, the consolidation of the multilateral trading system and the effective implementation of the Uruguay Round results.

107. For many developing countries, the process of liberalization would continue even after the Uruguay Round. These liberalization measures and the structural adjustment that would take place would be more meaningful if they were matched by more open and outward-looking policies on the part of the major industrialized countries, including greater openings in the services trade. The Asian Group looked forward to seeing increased trade and investment opportunities for all countries in the post-Uruguay Round era.

108. The Asian Group would also wish to see an increased role for UNCTAD and its technical assistance programme, together with the International Trade Centre UNCTAD/GATT, in the areas of: monitoring benefits/effects of the Uruguay Round for developing countries, especially the LDCs; assessing and recommending how fuller benefits could be realized and how market openings could be better exploited by developing countries (export promotion and ITC's role would be instrumental in these efforts); assisting developing countries with the analytical work and coordination on the issue of trade and environment; and providing information and better understanding on other topical subjects which had been raised by developed countries in the conduct of their trade relations - for example, human rights and international labour standards - and seeing how these affected the trade and development of developing countries.

109. The representative of **Chile** stated that, although the conclusion of the Uruguay Round might improve international trade in global terms, the results were poor for many developing countries, or even non-existent for some of them. For his country, the reduction of tariffs and the removal of a number of non-tariff measures in the agricultural sector were considered satisfactory. The integration of the textile sector represented important progress, even though the results could be assessed only several years from now. What could be considered a real success was the setting up of disciplines that strengthened the multilateral trading system. In particular, enhancing the dispute settlement mechanism was important for medium-sized or small countries. In general, the creation of the World Trade Organization would reinforce the multilateral trading system.

110. With regard to the situation facing the least developed countries, he said that the international community should seek mechanisms for economic

compensation, as these countries had not succeeded in obtaining benefits. He considered that this work, which was complementary to the Marrakesh agreements and to the WTO, was to be undertaken in UNCTAD. Consequently, it was necessary to strengthen UNCTAD's human and economic resources. Such compensatory mechanisms could be found through analysis, dialogue, consensus and negotiations in the various UNCTAD areas of competence. Such interlinkage of economic and social elements could offer the kind of relief that the Uruguay Round did not provide to many developing countries.

111. With reference to the respective functions of UNCTAD and the WTO, he said that they should be viewed as complementary mechanisms of the United Nations multilateral system. Among the possible areas of complementarity, he mentioned the activities on trade and environment. In this area the WTO would be called upon basically to prevent environmental aspects from becoming hindrances to trade, while UNCTAD should deal with these aspects from the economic development perspective of developing countries. International competition was viewed as another area for complementary work. In this regard, the WTO should negotiate agreements aimed at preserving the free competition within the international trading system, while UNCTAD, through its programme on restrictive business practices, should be able to analyse and reach consensus with a view to preventing national competition policies from affecting international trade. Both institutions should undertake analysis on how to link the international trading system with the monetary and financial aspects of the Bretton Woods institutions. Finally, he said that Chile considered that labour issues should not be dealt with either in UNCTAD or in the WTO, since these issues were the competence of a specialized agency, the ILO.

112. The representative of **Australia** welcomed the successful conclusion of the Uruguay Round, which was the most comprehensive and far-reaching round of multilateral trade negotiations ever held. She highlighted the following results of the Round: (i) agriculture and textiles had been brought more effectively within the rules of the multilateral trading system; (ii) the largest ever tariff cuts on industrial products had been achieved; (iii) new rules for the protection of intellectual property and for trade in services had been negotiated; (iv) the rules governing virtually all aspects of trade had been improved, and more automatic dispute settlement procedures had been secured. In her opinion, the results of the Uruguay Round had the potential to improve the economic growth and welfare of all countries, whether developed, developing or economies in transition.

113. While some countries might feel that they had benefited less from the Round than others, all in the longer term would benefit from the dynamic contribution that the more stable and more liberal international trading regime would provide to global economic growth. She felt that the developing countries in particular would benefit, not only from the new disciplines on agriculture and textiles, but also from the greater certainty that would be given to national trade policies across-the-board through the World Trade Organization. The fact that developing countries had played a much more active role and made a greater contribution in these negotiations than in previous Rounds reflected the general recognition of the benefits of the

effective integration of all countries into the international trading system, including into the contractual structure of commitments and disciplines of the GATT and the WTO.

114. The outcome of the Uruguay Round included provisions to assist developing countries over transitional periods and in particular provided longer-term differential treatment for LDCs. Not only was this differential treatment incorporated in the texts, it was emphasized also in a Ministerial decision and it was implicit in the additional time that LDCs had to submit schedules for the WTO.

115. The conclusion of the Uruguay Round had launched a new perpetual round of negotiations. Services negotiations were starting immediately, and the WTO agreement had built into it a timetable for future negotiations in other areas. Moreover, the Preparatory Committee for the WTO would begin at once to discuss key implementation issues for the WTO, including what other issues should be added to the WTO's agenda. One relatively new issue was trade and environment, on which there would be continuing discussion in the WTO under the agreed work programme. This issue was of global concern and required careful analysis of what might need to be done in the WTO and what lay more appropriately elsewhere in the international system, particularly in UNCTAD. She suggested that countries should try to analyse the issues objectively in both WTO and UNCTAD, avoiding duplication and ensuring that the debate did not become divisive.

116. The dynamic role of developing countries in GATT was an important facet of the change in the international economic and institutional environment which included UNCTAD's new orientation. She emphasized the need to identify in the post-Uruguayan Round environment those issues which might be most usefully considered by UNCTAD, bearing in mind UNCTAD's analytical capacity and its status as a unique forum for global consensus building.

117. The representative of **Romania** said that the recent conclusion of the Uruguay Round negotiations at Marrakesh represented a major event in international economic environment. The results of the Round should greatly improve market access conditions, stimulate investment and increase world economic growth. Romania participated fully in the Uruguay Round negotiations despite the difficulties it faced in the process of transition to a market-economy system. With a view to ensuring its integration in the world economy, Romania had consolidated 100 per cent of its tariffs, had undertaken specific commitments in the area of services and had adopted autonomous liberalization measures. He hoped that the results of the Uruguay Round would enable his country to expand its market access in goods and services and prevent its exports from being the target of arbitrary measures. UNCTAD should help developing countries and the countries in transition to benefit fully from the results of the Round. He considered, moreover, that UNCTAD could prepare the grounds for the negotiations on future trade issues.

118. The representative of **Sweden**, speaking on behalf of the Nordic countries (Denmark, Finland, Norway, Sweden), described the Uruguay Round agreements as the most significant event for international trade in recent years. They would remove substantial obstacles to trade and strengthen the contractual

framework for trade. This would cause an expansion of international trade and thereby increase global efficiency and employment and raise incomes.

119. The deal was not a zero-sum game. As the concept "developing country" covered substantial differences in size, economic performance, level of development, trade structure and standard of living, it was not surprising that all developing countries did not profit equally. But all stood to gain something, in the short run, and even more in the long run. He pointed out that the agreements contained provisions concerning special and differential treatment, and clauses stipulating fewer obligations and longer implementation periods and technical assistance for the developing countries, with even more flexible commitments for the least developed countries. Likewise the possibility that least developed and net food-importing developing countries might experience negative effects in terms of the availability of adequate supplies of basic foodstuffs on reasonable conditions had been accounted for in a decision forming part of the Uruguay Round package. In fact, a great number of the members of the WTO would be developing countries. He stressed the increased confidence emanating from the positive outcome of the Uruguay Round and observed that a failure could have unleashed protectionist pressures detrimental to all parties. It was now up to the countries and the international business community to make the best use of the opportunities offered.

120. The priority objective now was to ensure the rapid and faithful implementation of the results of negotiations and to make the WTO operational. As small nations dependent on foreign trade, the Nordic countries knew the value of legally binding rules. A strong multilateral rule-based system was of vital interest for them as well as for the developing countries. The importance of UNCTAD was by no means diminished and the Nordic countries strongly supported UNCTAD's role as a consensus builder in the area of trade and development, the most important task being to define what UNCTAD should do in helping the developing countries to take full advantage of the new opportunities offered.

121. The representative of **Canada** said that it was unquestionable that developing countries had played a leading role in the Uruguay Round negotiations, much more than in any previous Round. The importance of that role was reflected throughout the Uruguay Round texts. The phased integration of textiles and clothing into the scope of WTO, special transitional arrangements worked into many provisions of the Final Act, and commitments in texts such as the General Agreement on Trade in Services to engage in a process of progressive liberalization demonstrated the determined and forceful leadership of developing countries.

122. The UNCTAD secretariat had correctly noted the enormous importance for developed and developing countries alike of the strengthened multilateral rules and disciplines built into all parts of the Final Act, in more traditional areas as well as in areas newly covered by the WTO. Some had argued that these new disciplines were going to impose too onerous a burden on developing countries and that their sovereignty would be unacceptably restricted as national policy choices would have to be undertaken within the context of these new rules. In his opinion, however, all countries had ceded a degree of their national sovereignty, in order to benefit from the stability

and security which would flow from a strengthened system of multilateral rule-based trade. The alternative to moving towards stronger multilateral rules would have been to take one's chances in negotiating market access with often much larger and stronger trading partners. The WTO's integrated dispute settlement mechanism should provide medium and smaller trading nations with the protection needed to defend their national trading interests against bilateral pressures from much larger trading partners.

123. Concerns had been expressed by a number of developing countries, in particular on the impact on these countries of an erosion of preferential market access opportunities, and the possible detrimental effects which could affect a number of least developed countries that were net food importers. While it was unquestionably true that some margins of preference would be reduced as a consequence of the Uruguay Round, such reductions would be balanced by the accelerated reduction of tariff barriers in a range of product areas, such as metals, mineral products, wood, pulp, paper, textiles and clothing, as well as agricultural products of interest to many developing countries, such as coffee, tea, cocoa, sugar, fruits and vegetables, oilseeds and others. These new market access opportunities more than offset the effect of a reduction in the preference margins. In his opinion, national economic and trade policy-makers should be asking whether the ongoing existence of systems of preferences had not helped to divert economic resources into areas of less comparative advantage.

124. Furthermore, reforms to agricultural export support policies would be phased in over a transitional period of six years. It should not be forgotten that the effect on domestic food production of a rise in food prices would be probably to increase the levels of such production, thereby reducing dependence on imported food. Finally, Uruguay Round participants themselves had recognized the legitimate concerns of least developed and net food-importing countries in a special decision of the Final Act, which set forth important objectives for the provision of food aid, the provision of basic foodstuffs in grant form and aid for agricultural development, as well as the possibility of assistance from the International Monetary Fund and the World Bank on financing of commercial food imports.

125. On the issue of regionalism, he said that his authorities were convinced that, if they were pursued with the objective of expanding trade opportunities, and not with the intention to close off markets, regional trading arrangements could be solid contributors to a strong and stable multilateral system.

126. The representative of **Japan** considered that the implementation of the agreed Uruguay Round measures would result in great improvement of the world economy through the expansion of trade. The universal participation of the developing countries in the Uruguay Round reflected the important role currently played by these countries in world trade. A growing number of developing countries, including some Asian countries with remarkable economic development, had begun to consider the expansion of trade as a key element for economic development by making efforts for trade liberalization and laying emphasis on policies to strengthen their export capabilities.

127. The establishment of rules in new areas such as services, intellectual property rights and trade-related investment measures was one of the outstanding results of the Uruguay Round. Successful rule-making would secure stable transactions in these markets, allowing developing countries to play an active role in such transactions in the years to come.

128. Another outstanding result was the strengthening of the multilateral trading system by establishing rules in the area of dispute settlement, or by prohibiting the grey-area measures such as voluntary export restrictions and unilateral measures. Stabilizing the trading system and consolidating relief measures in case of dispute benefited the developing countries. Developed as well as developing countries would be making efforts to adopt measures that were not inconsistent with these rules of trade.

129. In his view, UNCTAD should, in its future work, try to establish constructive and complementary relations with WTO by enhancing its ability as a policy debating forum. UNCTAD should also promote its technical cooperation in the areas where it could make use of its accumulated expertise, in cooperation with WTO and the ITC, as to enable the developing countries to make the best use of the results of the Uruguay Round.

130. Considering that GATT was a forum for the making and implementation of rules in the area of trade and UNCTAD a forum for deepening policy discussion on the development issues, he felt that UNCTAD was called upon more than ever to take up new trade-related issues for policy recommendations with a view to facilitating the development of the developing countries. Therefore, the UNCTAD secretariat and the WTO must cooperate and make strenuous efforts to revitalize UNCTAD.

131. The representative of **China** said that the establishment of the World Trade Organization would have a significant impact on the structure of the world trade and the economic development of all countries. It would provide new impetus to the revitalization of the global economy and lead to more trade, more investment, more jobs and higher economic growth throughout the world.

132. Although the final package of the Uruguay Round covered a wide range of issues, the overall balance had not been achieved and the interests of the developing countries had not received adequate consideration. This was particularly true in the areas of tariffs and non-tariff measures where the reduction targets for products of considerable export interest to developing countries were not met. Net food importers would have to pay more for their food imports. There were no meaningful improvements in the market access package on services with respect to movement of natural persons. Furthermore, developing countries had undertaken new obligations in the areas of TRIPs and TRIMs, and had suffered loss in trade preferential margins.

133. The Chinese delegation, therefore, was of the view that there would be an urgent need for the Preparatory Committee of the WTO to address this imbalance and to implement the Uruguay Round results in good faith. There was also a need to set up the necessary monitoring and compensatory mechanisms to ensure that developing countries would continue to receive differential and more favourable treatment.

134. While he recognized that a large number of developing countries had participated actively in the negotiations and made important contributions by adopting a wide range of trade liberalization measures for the expansion of international trade, he held that developing countries should have greater opportunities for effective and equal participation in the future multilateral trading system. The WTO should have broader global representation which would include countries and regions with different economic systems and at different stages of development. It should also fully reflect the needs of the developing countries.

135. Referring to the respective roles of the new World Trade Organization and UNCTAD, he expressed the view that the complementarity of the two organizations should be ensured. In the past three decades, UNCTAD had made indelible contributions to defining the principles governing international economic and trade relations and the multilateral trade negotiations. He hoped that UNCTAD, pursuant to General Assembly resolution 1995 (XIX) and the Cartagena Commitment, would continue to play an active role with a view to making further contributions.

136. The representative of **Indonesia** considered that the successful conclusion of the Uruguay Round would enable the developing countries to participate fully in international decision-making, and allow exports from developing countries greater access to markets in industrial countries. Developing countries themselves, in the process of carrying out changes in their development strategies, had made strenuous efforts at considerable cost and sacrifices to fulfil their part of the development compact. He mentioned in particular the burden that the new obligations implied in sectors such as intellectual property rights and services. However, developing countries had accepted the Uruguay Round package since it was their belief that the future of world economic growth and global prosperity, as well as the prospects for development in developing countries, depended on the openness and justice of the international trading system. However, the developed countries must reciprocate in kind if they wished to see the developing countries pursue their structural adjustment and liberalization measures. The developing countries' reforms should not be frustrated by developed countries' shortsighted policies of unilateralism, protectionism, reduced transfer of financial and capital resources, and curbed flow of technology. In today's world of growing interdependence, integration of nations and globalization, the political pluralism and economic liberalization in the developing world could easily suffer a disastrous reversal if they were not supported by the developed countries' endeavours to create and sustain a conducive global economic environment for development. There was a collective responsibility to ensure that the interests and concerns of all developing countries were reflected in this changing world order.

137. New forms of protectionism which discriminated against exports from developing countries should be avoided in order not to hamper the developing countries' full participation in the new multilateral trade system. The liberalization of trade policies in the developing countries should be rewarded by allowing them to follow their socio-economic development. The principle of differential and more favourable treatment should be fully respected. There should also be greater political commitment by all countries to enable the World Trade Organization to play an important role in

implementing the results of the Uruguay Round. He hoped that the new organization would effectively serve as the guardian of a rule-based, predictable and non-discriminatory multilateral trading system and the guarantor of the rights of the weaker trading partners against arbitrary and unilateral actions of the strong, without being overloaded with controversial issues.

138. UNCTAD, for its part, had an important role to play in helping to secure a balanced and fair multilateral trading system with benefits for its members, while overcoming the possible negative effects on developing countries in specific sectors such as services and intellectual property rights. There was also a need for UNCTAD and developed trading partners to provide technical assistance.

139. The representative of **Uruguay**, recalling the objectives set in the Punta del Este Declaration, stated that for developing countries the results of the Uruguay Round were such that satisfaction of some of their needs had been delayed and their expectations disappointed. Nevertheless, the commitments reached were a positive step towards the strengthening of the international trading system. A central element in the outcome of the negotiations was the creation of the World Trade Organization, which created a framework for consideration of the legitimate aspirations of its members, especially those aspirations and needs not filled by this Round of negotiations.

140. Some of the results of the negotiations had been positive, of course, in particular market access and liberalization and removal of distortions to trade in the agricultural sector which was of particular importance to his country, as were the tarification process and the agreement on sanitary and phyto-sanitary measures. Although these results did not fulfil his country's expectations, they were a step in the right direction with respect to the prevailing situation. The agreement on agriculture was the starting point for the reform and rationalization of agricultural policies which would ensure new possibilities for efficient producers in international markets. His country attached great importance to the commitment to further the reform and liberalization process. The agreement on textiles was of particular importance for his country and the agreement on services was fundamental for regulating trade in this most dynamic sector. The success in agreeing on an effective dispute settlement mechanism would act as a guarantee against the application of unilateral measures by more powerful trading partners. He urged all participants to fulfil the obligations they had entered into and to strengthen their commitments to trade liberalization. These were priority points for the agenda of the WTO.

141. With regard to work in UNCTAD in relation to the future of the Uruguay Round agreements, he pointed to three priority areas. One was the evaluation of the quantitative aspects of the results of the Round in market access and the impact of the dismantling of subsidies in agriculture; a second area was the identification of trading opportunities for developing countries; and finally, there was the work involved in preparing developing countries to participate fully in future negotiations on such issues as agricultural trade and trade and environment.

142. The representative of the **Russian Federation** said that the successful conclusion of the Uruguay Round and the establishment of the World Trade Organization were outstanding events in the world's recent economic history. In the long run, all participants in the international trade would gain from the Uruguay Round results. He hoped that principles of free trade and fair competition, which were reconfirmed by these agreements, would logically lead to the expansion of mutually beneficial trade among countries, and thus to strengthening of national economic and of the world economy as a whole.

143. The Russian Federation's objective was full participation in the WTO. Unfortunately, since his country had become an "associated participant" in the last stretch of the Uruguay Round, it had not been able to take part in the negotiating process proper, and consequently to share with other countries all of its difficulties and achievements. However, the Russian Federation was interested in the strengthening of the multilateral trading system and intended to be part of such system in the not too distant future. Its membership in WTO was a necessary requirement for its genuine integration in the world economy. Such membership would contribute substantially to an acceleration and deepening of market-oriented reforms in the Russian Federation on the basis of experience accumulated by GATT. His country's membership in the WTO would be a significant event for other countries as well. On the basis of a reasonable balance of rights and obligations, the Russian Federation would offer a wide market of goods, services and investment. Its obligations as a WTO member would provide an additional warranty of stability and predictability in its trade relations and of access to its markets of goods and services.

144. At present, the Russian Federation's accession process to GATT/WTO was still at an early stage. In February 1994, a Memorandum on Russian foreign trade regime had been submitted to the GATT secretariat, and the first meeting of the Working Party on Russian Federation's accession to GATT expected to take place in early autumn 1994. In this context, a considerable amount of work had to be done to adapt Russian legislation and foreign trade practices to the rules and disciplines of GATT and the Uruguay Round agreements. The experience of other countries in this regard was interesting and valuable. He also expected that the UNCTAD secretariat would contribute to this process through the UNDP/UNCTAD technical cooperation project on support for Russian Federation's accession to GATT.

145. The representative of **Jamaica** said that the conclusion of the Uruguay Round was a considerable achievement, providing an opportunity to create an expanded and strengthened multilateral trading system that would respond to the needs of the international trading community with greater predictability for competition. The comprehensiveness of this "single undertaking" embodied in the Final Act bore witness to the confidence of the international community in multilateralism, and in the potential for world economic growth and dynamism. The much wider participation by developing countries in the Uruguay Round than in other previous Rounds and their acceptance of the results indicated that their governments were committed to a reformed multilateral trading system which could enhance economic recovery and create opportunities for the sustainable development of developing countries.

146. Referring to the far-reaching structural adjustment programmes undertaken in many developing countries over the past decade, including in Jamaica, he said that the overall aim had been to revitalize their economies and integrate them into the world economy. Global trade liberalization had become the main principle guiding the international trading system; in fact, experience showed that economic growth and development were enhanced by trade liberalism and more predictable international trade rules. He believed that the Final Act, with improved institutional arrangements under the World Trade Organization, could provide the means to assist developing countries in attaining the objective of economic growth and development. However, for many developing countries to take advantage of the expanded opportunities under the reformed multilateral trading system, the support of the international community would be required, in particular for improving their capacity to deal with the new mechanisms and instruments embodied in the Final Act, as well as in the continued negotiations to be undertaken in some areas. In this regard, he looked forward to continued support by UNCTAD through its technical cooperation programme.

147. As for the different degree of benefits to be derived from the results of the Round for various countries, he expressed concern at the erosion of trade preferences under the Lomé Convention and at the increases of prices for food imports. He held that the prospective outcome of the Uruguay Round for developing countries, particularly ACP countries, would warrant taking measures to redress this imbalance and to support the economic and social development of these countries. These measures should include balance-of-payments assistance, which could be given through multilateral financial institutions, and financial and technical assistance which could be given through international organizations such as UNCTAD, UNIDO and FAO. He also argued that a monitoring mechanism should be established in the WTO to consider any negative effects from the results of the Round and to find ways of redressing the problems, including compensation for any losses sustained.

148. He said that his delegation shared the view that during the implementation of the Uruguay Round, UNCTAD would need to play an even more dynamic role than hitherto for policy analysis, intergovernmental deliberations, consensus building and negotiations. He endorsed fully the views expressed by the spokesman for the Group of 77 on the clearly delineated complementary functions of UNCTAD and the World Trade Organization. UNCTAD had extensive experience in many of the policy areas related to international trade and looked forward to UNCTAD's continuing to make available this expertise to the developing countries during the critical years ahead.

149. The representative of the European **Commission**, speaking on behalf of the **European Union**, pointed out that the Uruguay Round agreements would lead to an unprecedented opening of markets through an overall reduction of tariffs by much more than the Montreal target of 33 per cent and a progressive integration into the multilateral trading system of trade in textiles and agriculture. The conclusion of an agreement on services, with a package of initial commitments, represented an impressive starting point for negotiations to continue on a number of sectors. The world trading system would be improved through such means as the strengthening of the rule-based system of multilateral trade, the broadening of that trading system to encompass the new

areas of international economic activity, and in particular by the establishment of a stronger and more broadly based World Trade Organization.

150. The participation of developing countries in the Uruguay Round was a major historic evolution towards a more balanced world, resulting in new perspectives of partnership. The Round provided for new export possibilities for the developing countries by improving their market access, in particular in textiles. A more open multilateral trading system was beneficial to all participants - developed and developing alike - and a system based on stricter rules would promote the rights of developing countries, including those Latin American and Asian countries which in recent years had carried out serious adjustment policies and simultaneously opened their markets.

151. Referring to the clauses and decisions in the Final Act on more favourable and differential treatment for the developing and, in particular, the least developed countries, he pointed out that the European Union had often been an initiator of these provisions. Since the least developed countries would benefit most from technical assistance aimed at helping them to augment their participation in international trade, he called on UNCTAD to focus its efforts on these countries.

152. He stated that the European Union supported the objective to get the WTO to enter into force on 1 January 1995, even though not all subjects had been finalized at the Marrakesh meeting, especially regarding services. Furthermore, the European Union considered that the globalization of the world economy, with its implications for trade flows, necessitated discussion on issues that were already dealt with in UNCTAD, such as trade and finance, restricted business practices, and trade efficiency. More generally, UNCTAD should preserve its role as an initiator of new issues.

153. Concerning the work of the WTO, he emphasized the need to ensure intensive cooperation between the WTO, IMF and the World Bank. As to the development of the interface between trade and environment, he welcomed the proposed establishment of the Committee on Trade and Environment in the WTO. As for the issues related to competition, the existing disparities in different countries were such that these issues should be tackled rapidly, particularly in the context of restrictive business practices. Finally, he observed that in the social areas there was a real lack of comprehension and information about the problems. The social question should be dealt with in as impartial a manner as possible, identifying the relevance of any action, including the need for safeguards against unilateralism and protectionist measures. Developing countries had a legitimate right to profit from their natural advantages and to apply domestic policies adapted to their level of development. The European Union aimed at examining other subjects with the same objectivity. In the end, the strength of the future WTO depended on the open-mindedness of its founders, including the developing countries.

154. The representative of **Mexico** expressed support for the suggestion that a major analysis and evaluation of the Uruguay Round be made which would allow developing countries and countries in transition to identify clearly problems and opportunities for increasing their participation in the international trade of goods and services. The successful outcome of the Uruguay Round offered the most promising prospects for the expansion of trade, services and

capital flows since it established clear rules for all participants. Attention should now be focused on achieving the fullest liberalization of world trade which would bring about a fairer distribution of world income, provided that the reciprocity principle was observed. The agreements signed at Marrakesh would stimulate world economic recovery. They should be complemented by efforts on the part of the international community to intensify cooperation for development as well as by measures taken by countries individually. It was in this spirit that Mexico had entered into free trade agreements, fully convinced that they contributed to strengthening trade liberalization in general.

155. Turning to the future activities of the World Trade Organization, he said that his Government considered that they should concentrate on three areas: first, the deepening of reciprocal trade liberalization; second, improvement of multilateral disciplines in order to eliminate unilateralism and to reverse protectionist tendencies; and third, ensuring an appropriate interaction between competition policies and trade measures, so as to combat unfair practices.

156. With regard to UNCTAD activities, he said that UNCTAD had an important role to play in ensuring that full use was made of the opportunities emerging from a well-ordered multilateral trading system. Such opportunities should be analysed in UNCTAD from the development perspective, taking into account the legitimate aspirations of developing countries. In a preliminary phase, UNCTAD could undertake a detailed analysis of technical assistance needs of developing countries, in particular the least developed countries, to enable them to take full advantage of the Uruguay Round agreements.

157. The representative of **Brazil** considered that the completion of the Uruguay Round was a very important step towards the creation of a truly multilateral institution to deal with international trade. As one of the original signatories of GATT, Brazil had been participating actively in all negotiations since 1947. In accordance with its natural vocation for worldwide international trade, Brazil had played its part in the collective effort to build an open, non-discriminatory and equitable trading system.

158. Referring to the wide-ranging reform programme carried out by his Government to achieve trade liberalization, deregulation and privatization, he stated that virtually all non-tariff measures had been eliminated and the average tariff rate had been reduced from 52 per cent in 1988 to 14 per cent in 1993. The transition from the import substitution model to a new and open model of economic growth had taken place in an entirely democratic environment and reflected a growing consensus within Brazilian society. The successful outcome of the Uruguay Round was therefore an essential part of the overall strategy to promote the competitive integration of his country in the world economy.

159. In connection with the regional integration processes of both MERCOSUR and the South American Free Trade Zone, he said that the Latin American countries were committed to an open and more supportive international environment, based on stable and fair rules, and to achieving a greater integration of their economies in the international markets. He believed that

these regional arrangements were fully compatible with the principles and objectives of the World Trade Organization. Open regionalism should be seen as a complement, not an alternative, to multilateralism.

160. In the view of the Brazilian delegation, the strengthening of multilateral rules and effective restraining of the scope for unilateral action were crucial achievements of the Uruguay Round. The results should be fully implemented and enhanced in the post-Round phase with a view to providing the necessary stable legal framework for the effective and mutually beneficial conduct of international trade. Brazil attached great importance to the agreements for the reintegration to GATT of textiles and agriculture, which were of special interest for developing countries. Reduction of trade barriers by developed countries would also have a positive impact on Brazilian trade. However, tariff reductions in a variety of products that had considerable weight in the exports of developing countries ran well below average and tariff escalation remained an obstacle to giving free rein to competitiveness.

161. As a major contribution to the success of the Uruguay Round, the developing countries had accepted the challenge of engaging in trade liberalization reform and undertaking increased obligations in the expectation that these efforts would be compensated by improved access to markets. In looking into the post-Round phase of trade relations, he was of the view that one of UNCTAD's main tasks should be to assess how effectively new trade institutions and rules contributed to development. In this endeavour, adequate cooperation and coordination should be promoted between UNCTAD and WTO.

162. With respect to the implementation of the Uruguay Round results, he held that UNCTAD would certainly have a positive role to play in many aspects, inter alia by providing technical assistance. One simple and immediate activity the UNCTAD secretariat could undertake could be the preparation of a checklist of measures, including notifications and their deadlines, that countries would have to perform as a result of the Uruguay Round agreements. Another area where UNCTAD could make a contribution, perhaps in association with other international organizations, regional associations and WTO, could be the development of a training programme on trade protection instruments, such as anti-dumping or countervailing measures, from both an exporter and importer perspective.

163. The representative of the **United States of America** joined others in welcoming the successful conclusion of the Uruguay Round including tariff reductions of more than 33 per cent, the inclusion of trade in agriculture, intellectual property and services, and improvements in other sectors, all of which would result in developing countries' enjoying increased trade and providing for increased real income and economic development. He looked forward to future UNCTAD and ITC analysis of how developing countries could best take advantage of the Round's liberalization measures. His country believed that the international trading system had a great global market growth potential for the benefit of both developing and developed countries, since the reforms would increase global trade, stimulate foreign direct

investment, provide opportunities for developing countries to fuel their domestic economies and expand foreign markets in agriculture, industrial goods and services.

164. In his view, regional cooperation agreements did not detract from what had been accomplished multilaterally and they could in fact serve as building blocks for the multilateral trading system. Its participation in the multilateral and regional arrangements had prepared the United States for the GATT exercise. Similarly, regional arrangements could help smaller economies to expand into global markets through regional markets, thus providing additional development opportunities.

165. With regard to the new issues that would be dealt with in the WTO, the United States looked forward to continuing analytical work and consensus building in UNCTAD, especially in the areas of trade and environment and competition policy. Emphasizing the importance of addressing labour standards in the WTO, he pointed to the need to ensure that working people in all countries shared in the benefits that resulted from agreements to liberalize trade and investment. Developing countries could benefit both directly and indirectly by improving their labour standards and by not competing with one another through the lowering of labour standards in order to attract investment. While the United States had no intent of using labour standards as a pretext for denying developing countries their comparative advantage based on lower labour costs, it was nevertheless concerned that trade competition based on repression of labour standards or denial of workers' rights, would act as a subsidy which distorted trade and investment flows.

166. Environmental issues were a matter of high priority for his country and he looked forward to complementary work and good coordination between UNCTAD, the WTO and a number of other international institutions in this field. Having recalled the main elements of the Ministerial Decision on Trade and Environment, he said that an important start had been made in considering trade and environment together in order to ensure that their competing claims did not conflict. The real work must now get under way and produce timely results.

167. The importance of effective competition policies to the operation of a market-based system had long since been recognized in the Havana Charter and the reduction of trade barriers and the globalization of business had significantly increased the importance of effective anti-trust laws and enforcement for achieving access to foreign markets. His country therefore believed that the issue of trade-related competition policy needed to be taken up by the WTO. The United States would continue to work bilaterally and multilaterally to assist developing countries and economies in transition in their efforts to become full participants in the world trading system.

168. The representative of **Switzerland** said that the conclusion of the Uruguay Round would revitalize the world economy, with positive effects on standards of living, employment, optimal use of resources, environment and sustainable development. As far as developing countries were concerned, his authorities were convinced that the long-term result of the Uruguay Round would stimulate their economic development through increasing their exports and foreign direct investment. During the Uruguay Round, participants had realized that the

specific interests of individual developing countries could not be dealt with by general solutions. In this perspective, Switzerland, in its bilateral negotiations with developing countries, had taken into account their specific needs and had renounced any attempt to obtain concessions from the poorest among them. Moreover, with respect to concessions in the area of tropical products, Switzerland had made particular efforts.

169. He believed that the least developed countries, most of which were net food importers, were at a disadvantage when it came to deriving benefits from the multilateral negotiations, as was demonstrated by their weak use of GSP schemes. The situation of the least developed countries, therefore, deserved priority attention and common approaches to ensure that they would benefit from the implementation of the results of the Round. The Ministers had recognized in the Marrakesh Declaration the need for specific measures in favour of the least developed countries. Switzerland would implement the Marrakesh decision through its bilateral development cooperation programmes and the competent multilateral organizations. Furthermore, on the basis of studies being undertaken on the consequences of the Uruguay Round for least developed countries, the Federal Council would adapt its instruments of cooperation and development, including the Swiss GSP scheme.

170. Referring to the heavy tasks before the international community in implementing the results of the Uruguay Round, he stressed inter alia the need to prepare the ground for the examination of possible additional issues in the work programme of the WTO, such as the relation between the trading system and internationally recognized labour standards and the establishment of efficient cooperation between WTO and the other international organizations, in particular those of the United Nations system. A good distribution of tasks between WTO, UNCTAD and ITC was necessary to enable the developing countries to take advantage of the new opportunities offered by the results of the Round. As the President had stated in the general debate, WTO and UNCTAD had distinct functions which were clearly delineated in the Uruguay Round Final Act and the Cartagena Commitment. Through its principal functions of analyses, consensus building and technical cooperation, UNCTAD could make a major contribution to the follow-up of the Uruguay Round. It could play a complementary role to that of WTO by identifying new issues that might give rise to trade tensions. Moreover, UNCTAD was called upon, in close cooperation with ITC, to help the developing countries to seize the new opportunities created by the Uruguay Round.

171. The representative of **the Former Yugoslav Republic of Macedonia** confirmed the intention of his country to become a full member of the GATT and expressed the hope that the negotiations for accession would be successfully concluded by the end of 1994. While regretting that his country, which was a developing country in transition, could not participate in the final stages of the Uruguay Round negotiations, he was confident that it would be able to benefit from the experience of other contracting parties. The agreed GATT Disciplines were very important for small countries like his own. One of the most important tasks of the future WTO would be to make sure that the agreements were observed by all countries. Unilateral actions, such as trade embargoes, should not be allowed.

172. With regard to the distribution of work between UNCTAD and the WTO, he was confident that these organizations would achieve complementarity and that duplication and unnecessary competition would be avoided.

173. As far as his own country was concerned, he recognized the need to establish on a national level the necessary infrastructure to follow the work of the WTO, but technical assistance from the GATT and the UNCTAD secretariats would also be needed for this task.

174. The representative of **Bangladesh** expressed the hope that the Final Act of the Uruguay Round would boost investment, job creation and economic reform and strengthen the rules and disciplines for free and fair competition. Unfortunately, the concerns of the developing countries had not been adequately reflected in the Final Act although they had extended full support and cooperation to the successful conclusion of the Uruguay Round. He hoped that, in the implementation of the Uruguay Round agreements, the international community would be more responsive to the needs of countries like Bangladesh. In his opinion, UNCTAD should undertake a comprehensive assessment of the results and implications of the Round, particularly for the least developed countries. UNCTAD should also make recommendations for removing any imbalances through appropriate action, including additional trade preferences, development assistance and debt relief.

175. In the Marrakesh Declaration, the Ministers had recognized the importance of special provisions for the least developed countries and had affirmed their intention to assist and facilitate the expansion of their trade and investment opportunities. UNCTAD should therefore take follow-up action on the basis of the Marrakesh Declaration. Referring to the need to initiate considerable preparatory work and action at the country level for the implementation of the results of the Round, he believed that the new issues might be taken up in a phased manner. All the new issues might not necessarily fall within the purview of the WTO. The poor countries required sufficient time to study the implications of new issues and, in order to implement the results of the Round, substantial technical assistance would be needed by countries like Bangladesh.

176. The representative of **Austria** noted with interest the efforts of many developing countries to liberalize their trade and their increasing importance as trading partners. It was particularly encouraging that many of them had recently joined the GATT and others had submitted applications to do so. Most of them should benefit from the market access liberalization achieved so far and all from the strengthening of the legal framework and general expansion of world trade. In his view, an open, non-discriminatory, transparent and effective multilateral trading system helped to avoid unilateralism. Many agreements resulting from the Uruguay Round, including the improved dispute settlement procedures, would help developing countries and, in particular, the least developed among them to secure their rights and facilitate their integration into the international trading system. His country supported the full and active participation of these countries in the WTO.

177. In view of the importance of the textiles and clothing sectors for the balance of payments of many developing countries, he welcomed the integration of these sectors into the GATT, as well as the inclusion of services, TRIMs

and TRIPs under multilateral disciplines. Moreover, although a number of developing countries had had doubts about the General Agreement on Trade in Services, the exclusion of this sector would certainly not have been in their interest. He pointed out that the liberalization of the very sensitive agricultural sector would result in a market reduction of distortions in the world food market and was thus of great importance to those developing countries that were highly dependent on stable revenues in this field.

178. In view of the transboundary nature of environmental degradation, and the fact that adequate environmental policies were a prerequisite for sustainable development, he said that Austria endorsed international dialogue in trade and environment and believed that cooperation and complementarity between GATT, WTO and UNCTAD could secure worldwide benefits in this field. In his view, the relationships between trade and economic policies and social concerns should be looked at closely by the WTO in cooperation with ILO and other organizations, in order to avoid possible abuses of social concerns for protectionist purposes. Since practical solutions facilitating both free trade and social advancement would have to pay special attention to the needs of developing countries, UNCTAD's analytical capabilities and status as a unique forum for confidence-building might be of particular relevance.

179. The representative of **Peru** said that the Final Act of the Uruguay Round was the multilateral ratification of a process of trade opening and liberalization which his country had undertaken unilaterally four years ago. This process should now be completed at the international level with wide and equitable market access for Peruvian exports. In general, the results of the Round were satisfactory. The agreed set of rules for the fair settlement of trade disputes would reduce unilateral pressures significantly. Major distortions of trade in the agricultural and textiles sectors had been reduced. A multilateral framework for trade in services had been established and it was expected that market access in this area would be improved.

180. With regard to future work in UNCTAD, he suggested that three types of activities could be undertaken: (a) identifying sectors and products for which improved access and new trade opportunities might arise from the conclusion of the Round; (b) monitoring review mechanisms, safeguard clauses, application requirements, etc.; and (c) UNCTAD should also be a forum for discussion and reflection on new issues emerging in the international agenda.

181. With reference to the social issue, he expressed concern that this issue would be used as a pretext for preserving the trade interests of certain trading partners, rather than for the legitimate defence of workers' rights which had been negotiated in the ILO.

182. The representative of **Ukraine** said that, as a result of many years of negotiations in the framework of GATT, balanced agreements had been reached which laid a solid basis for stable world economic growth. The relevant legal regulations covered not only commodity markets, but also capital markets, investment flows and intellectual property rights. One of the most significant achievements of the Uruguay Round was the agreement to establish the World Trade Organization. For countries in transition, participation in international organizations establishing the mechanisms that regulated the international markets for labour, capital goods and services was a

prerequisite of the integration process. This applied first and foremost to the General Agreement on Tariffs and Trade. The standards and procedures adopted by GATT covered the lion's share of world trade and influenced the harmonization of trade regimes of most countries. Thus, the fact that Ukraine was not a member of GATT led to a considerable decrease of trade flows to the country. On the other hand, Ukraine's goods were deprived of their due place on the world markets. This also led to the deceleration of the development of non-discriminatory trade and economic relations with partner countries. The process of Ukraine's accession to GATT and the World Trade Organization was thus of great importance and it was becoming a strong stimulus for the economic and legal reforms in Ukraine.

183. He said that Ukraine was convinced that the Uruguay Round results would not diminish the importance of UNCTAD. The mandate of UNCTAD enshrined in the Cartagena Commitment defined its role and tasks in the area of promoting development through improvement of the system of international trade and economic cooperation. UNCTAD should become a political instrument to ensure the balance of trade and economic interests between developed and developing countries. The main direction of the UNCTAD activity should be the elaboration of optimal trade policies in the interest of developing countries and countries in transition, as well as the provision of political and technical support to these policies. It was also important to make the programmes of technical assistance more concrete and better oriented towards the specific interests of both developing countries and countries in transition. Ukraine needed such support urgently, especially in the harmonization of standards and norms of foreign trade in accordance with the GATT regulations, the process of acceding to GATT, the access to foreign markets for Ukraine's and their protection on these markets. He hoped that Ukraine would receive the necessary technical and advisory assistance from UNCTAD.

184. Finally, he recalled that eight years had elapsed since the Chernobyl catastrophe which had proved to be a huge ecological and technological international disaster. The consequences of this catastrophe were of a lasting nature and their real magnitude could not be established yet. Ukraine hoped that the international community and the United Nations institutions, including UNCTAD, would continue to make contributions to the international cooperation aimed at alleviating the consequences of the Chernobyl disaster.

185. The representative of **Nigeria** said that the scope of the agreements embodied in the Final Act of the Uruguay Round offered challenges and opportunities for developing countries, particularly the African countries. It should be recognized that immediate gains from trade liberalization would be limited, and even could be negative, owing to erosion of margins of preference. This problem was now widely acknowledged, and if it was not addressed in concrete terms, including through compensatory mechanisms, the gains expected from the Round would bypass his country. Nevertheless he believed that, in the long run, reduced and complete elimination of MFN tariffs offered a far more guaranteed and secure market access than did preferences. In this context, Nigeria fully subscribed to trade liberalization in the Uruguay Round and to strengthened rules to underpin it. Africa needed more imaginative long-term solutions to overcome its competitive disadvantage deriving from dependence on primary exports, a weak industrial

and export base and technological backwardness. Without measures to improve supply capabilities in higher value-added exports, to achieve product market diversification, and to increase agricultural production, strengthened trade rules could not be expected to offset the disadvantages facing African countries, which risked further marginalization in the new international trading system if decisive action was not taken to meet these urgent needs in the form of debt relief, targeted improved market access and increased foreign direct investment flows.

186. Another area of concern was the likely negative impact of agricultural trade liberalization on net food-importing countries. African countries lacked the capacity and resources to take advantage of the opportunities that the agricultural reform programme gave rise to. A combination of food aid in grant form and financial and technical assistance to boost agricultural production and productivity would be indispensable in the short and medium term to offset the negative impact. Otherwise, any gains from the agricultural trade liberalization would again bypass Africa.

187. Both the WTO and UNCTAD would have an important role to play in providing technical assistance in building and strengthening the institutional and human resources capacity in order to assist African countries in the implementation of the results of the Uruguay Round. UNDP/UNCTAD's technical assistance to developing countries was outstanding and should be seen as a significant contribution to the success of the Uruguay Round. He requested that UNCTAD, with the financial support of UNDP and other donors, put in place a programme of assistance for Africa, similar to those already operational for Asia/Pacific and Latin America and Caribbean countries. Finally, he called on UNCTAD to continue its technical assistance in analytical work, particularly on the proposed new issues to be included on the work programme of the Preparatory Committee for WTO.

188. The observer for the **Third World Network** said that developing countries had already paid the price of accepting the new Uruguay Round terms in different areas of interest to the developed countries without obtaining in exchange satisfactory conditions of market access, and there was a substantial contraction in policy options and instruments open to developing countries for development and trade. For the South as a whole the outcome of the Round was imbalanced and unsatisfactory. The Uruguay Round created level playing fields for developed countries and their corporations but raised hills and mountains for most developing countries. As a result, several of the development options for developing countries and their peoples were closed and others made more difficult. He was concerned that the major countries had succeeded in their strategy of combining liberalization abroad with protectionism at home to defend their own interests. This was particularly true in the "new" areas, such as services, investment measures and intellectual property. They had succeeded in demanding reciprocity from developing countries in return for market access for textiles and clothing. The phasing out of the Multifibre Agreement was portrayed as a "concession" to the South, which should be reciprocated.

189. Many developing countries felt disappointed as they had obtained far less than they had expected, in view of the concessions they had made in accepting the new disciplines. He hoped that UNCTAD would conduct a detailed study of

the outcome for developing countries in the market access aspect of the Uruguay Round as well as an analysis of the impact of the Round on developing countries and particularly the least developed countries. He also hoped that the UNCTAD secretariat would come up with proposals for effective and continuous monitoring of the effects of the Round on developing countries, for identifying the net losers, and for the means to offset these losses, including through compensatory contractual mechanisms.

190. Many developing countries had signed the Uruguay Round Final Act in the belief that a strengthened multilateral rule-based trading system as institutionalized in the new WTO would guard against nationalist protectionism and unilateral trade sanctions from the North. However, it was still not clear whether the United States would adhere to the primacy of multilateralism under the WTO, or whether it would continue to use unilateral threats or actions, ignoring the WTO's rules. If the latter were to prevail, and Europe and Japan were to create their own unilateral instruments, the South, not having the power of retaliation, would face the worst of all possible worlds. The WTO could be used to discipline developing countries in areas such as intellectual property and investments while it would be powerless to discipline Northern countries for taking unilateral and protectionist measures.

191. He expressed concern at the attempt of some Northern Governments to introduce new issues into the World Trade Organization such as trade and labour standards, and trade and the environment. In his view, some Northern countries were trying to extend the practice - prevalent during the Uruguay Round - of bringing areas of activity which were not directly trade linked and directly distortive of trade under the control of GATT and the WTO through the simple but devastating device of attaching the prefix "trade-related" to these new issues. By introducing these issues the North was attempting to evade its various obligations, including those of bearing the costs of transition to global sustainable development and ensuring better market access for the South. He argued that, because of its narrow trade focus and its lack of jurisdiction and competence, WTO could not be an appropriate coordinating agency to handle the complex links between trade, environment and sustainable development; and between trade and labour standards. A more suitable forum for integrating these issues would be the United Nations and its agencies such as UNCTAD, the Commission on Sustainable Development, and the ILO. The United Nations should thus provide the forums in which the issues could be discussed in the broader perspective of sustainable and human development, and in a more open and democratic manner. At the end of this process, the WTO could be given the mandate to handle those aspects for which it was deemed to be competent or appropriate.

Action by the Board

192. The action taken by the Board on agenda item 3 is reported in TD/B/40(2)/24 (Vol.I), section I.A. (See agreed conclusions 410 (XL)).

Chapter III

SUSTAINABLE DEVELOPMENT: THE EFFECT OF INTERNALIZATION OF EXTERNAL COSTS ON SUSTAINABLE DEVELOPMENT

(Agenda item 4)

193. For its consideration of this item, the Board had before it the following documentation:

> "The effect of the internalization of external costs on sustainable development", report by the UNCTAD secretariat (TD/B/40(2)/6).

Consideration in Sessional Committee I

194. In introducing this item, the **Deputy Director of the Commodities Division and Coordinator for Sustainable Development** emphasized that sustainable development was a development concept which therefore required economic growth in places where essential needs were not being met. Thus sustainable development gave priority to the urgent present needs of the poor and the elimination of poverty, not just of pollution. Environmental problems arose when prices paid for goods and services did not reflect fully the cost to the environment of their provision, use and disposal. Sustainability of development required striking a balance between resource use and protection of the environment. The regulatory approach - whereby governments set regulations and environmental standards - was practised widely but there were other instruments for internalizing external environmental costs. The secretariat paper had assessed the nature of the various instruments available and their advantages and disadvantages. Full-cost resource pricing was one of the principles underlying internalization of environmental costs with which UNCTAD was particularly well-placed to deal. While it had been recognized that action was necessary at the national level, it was the international dimension of such action that could be valuably addressed in UNCTAD, in particular transborder and global external environment costs. Developing countries, especially, faced a policy conundrum: the imperatives of environmental protection and of development often pulled in opposite directions. Resolution of this conundrum required policies that would meet at least three criteria: (a) be capable of internalizing external costs; (b) allow continued economic development in all countries and enable the process of industrialization and modernization of commodity production to proceed in countries where the process was incomplete; and (c) provide appropriate incentives to assure development in developing countries and the renewal and expansion of industrial facilities in both developed and developing countries, while embodying environmentally sound technologies and practices.

195. Although it was in the interest of all countries to cooperate on reducing the rate of use of environmental resources, the incentives facing individual countries often encouraged cost-cutting by "free-riding" on the virtuous behaviour of other countries. Hence the need for an efficient system of incentives at the international level was an imperative. In line with Principle 7 of the Rio Declaration, special attention had to be paid to finding positive incentives directed towards developing countries. Since

production of commodities imposed costs that were seldom included in their market price, commodity exporters were, in essence, providing a subsidy to importers. For this reason, commodity pricing issues and the coordination of internalization in resource-based industries were central to achieving sustainable development through trade. Incentives for environmentally sound technology switching also had great potential. However, developing countries were faced with problems of environmental resource management superimposed on existing development problems. As the advances expected following Agenda 21 had not appeared, there was concern in some quarters that the environmental agenda of the industrialized countries might push development issues to a lower order of priority. It was therefore essential to start taking immediate steps towards sustainable development through the internalization of external environmental costs. The Board might wish to request that the Standing Committee on Commodities examine the issue of the principle of full cost resource pricing incorporating external environmental costs and its implementation, with particular emphasis on ways of ensuring global cooperation on instruments supportive of sustainable development, such as for example through international commodity-related environment agreements. At the second part of its forty-first session, the Board might wish to devote attention to the issue of environmental finance as this would be a natural evolution of work on development finance and could possibly respond in some measure to the failure of the "Earth Dividend" to materialize.

196. The representative of the **United States of America** said that he found the overall tone of the secretariat's report to be positive, including its conclusions on the developmental benefits of environmental protection measures, particularly from the viewpoint of reducing or removing ill-conceived subsidies and other forms of free market interventions. The focus on the application of instruments for appropriate internalization of external environmental costs of economic activities held promise both for reducing the environmental damage they caused and for building the international basis for the effective integration of environmental concerns into trade and development policies. He reminded the Board, however, that cost internalization alone could not create all the conditions necessary for sustainable development. Moreover, specific economic and environmental policies that might be appropriate for internalization of external costs, and their potential contribution towards sustainable development, also depended on the specific definition given to such concepts as internalization of external costs and sustainable development. The secretariat's report framed the principle of internalization of external costs in terms of the polluter pays principle and the resource pricing principle, but additional elements needed to be considered, including the notion of optimality and the possible alternatives for the use of available economic, social and environmental resources. In his view, the report over-emphasized the equity dimension of cost internalization while understating the importance of the efficiency dimension, and had not adequately addressed such important questions as the formulation of commodity policies that were optimal from both environmental protection and economic development perspectives. He noted that the term sustainable development was as much an environmental concept as a development one and so called for full consideration of environmental factors to ensure sustainability. Moreover, the critical importance of inter-generational equity, which was generally regarded as one of the key tenets of the sustainable development concept, had been neglected in favour of

intra-generational equity. Future consideration by UNCTAD in this area should be more focused and move beyond the Brundtland Commission definition of sustainable development into a fuller common understanding of the environmental and developmental concepts. He commended the secretariat for its work in providing a solid and objective analytical foundation for discussion and indicated general support for further work on commodity-related issues and national approaches to environmental financing.

197. The representative of **Japan** said that in his country regulatory approaches had achieved considerable success in controlling industrial pollution and, consequently, in safeguarding the environment. However, as a result of continuing economic growth and its accompanying pattern of mass-production, mass-consumption and mass-disposal, urban and household-generated pollution had emerged as a major problem. Furthermore, as UNCED clearly pointed out, there was a danger that the global environment might be impaired. Since these new and complex problems arose from everyday activities, it could be said that people were both polluters and victims at the same time. He was of the opinion that, to be effective, regulatory approaches should be supplemented by a broad variety of policy instruments, including economic measures such as environmental taxes, surcharges and deposit-refund systems. He said that Japan's 1993 Basic Environment Law provided for economic measures to reduce the environmental load; there was also government monitoring, conducting appropriate surveys and research on the effectiveness of these measures and their impact on the economy, and the promotion of public awareness and understanding of the rationale for such measures. He clarified the use of the "Environmental Fund" component of the "Pollution Related Health Damage Compensation Law", mentioned in paragraph 50 of the secretariat's report. This law had been enacted in 1974 to exact compensation from polluting industries on behalf of pollution victims and, contrary to what was stated in the report, no loans had been granted to firms investing in pollution-control technology under this law. Since 1988, the new "Fund" component of this law had been established and financed by voluntary contributions which were used to support pollution-related health care and welfare programmes. As to the future work of UNCTAD, he reminded the Board of the agreement at the most recent session of the Standing Committee on Commodities regarding the importance of an analysis of the economic implications of internalization. He expected the Committee to deliberate on this issue carefully, particularly the linkage between internalization and the issue of trade and environment and the varying economic and environmental circumstances affecting different commodities. He also said that he preferred to postpone a decision on the theme to be addressed at the second part of the Board's forty-first session. This decision could be taken during the first part of that session, by which time the mid-term review would have been completed.

198. The spokesman for the **European Union** (Greece) said that the document prepared by the secretariat was an excellent analysis of the concept of internalization of environmental costs, the degree of consensus on the principles involved and the instruments available. Internalization of external environmental costs had been proclaimed in principle 16 of the Rio Declaration and identified in paragraph 208 of the Cartagena Commitment which recognized that UNCTAD should pursue work on: "the manner in which prices of natural commodities and their synthetic competitors could reflect

environmental costs and resource values". Externality entailed effects of one entity's action on others not party to that action. These effects could be negative or positive, resulting in either costs or benefits and their evaluation was exceedingly difficult. Agenda item 4 incidentally referred only to internalization of the costs but not the benefits. Identifying the instruments by which to carry out the task of internalization, the implications of their use at the international level and the necessity for concerted action were all part of a complex issue. Sustainable development relied on economic growth to meet basic needs and, as the secretariat report had stated, sustainable development should give "priority to the urgent needs of the poor, seeking to do away with poverty, not just pollution" (para. 8). While internalization of external environmental costs could contribute to the conservation and better management of the environment, it was nevertheless clear that some external environmental costs would not impinge greatly on sustainable development. The process of internalizing environmental costs involved their identification, evaluation and redistribution. An evaluation had to be made of the extent to which external environmental costs would reduce the bases for future needs satisfaction; likewise the extent to which the financial costs of internalization impinged on other investment possibilities had to be assessed. A focus on the purpose of internalizing external costs, namely to induce the agent responsible for causing the cost to reduce or eliminate it, should not obscure the fact that many external costs were unavoidable. For natural resources, avoiding all costs for future generations implied ceasing exploitation altogether, an unreasonable solution. However, external costs accruing to future generations could be reduced to a level compatible with sustainable development. Full-cost resource pricing was one way to achieve this and should be investigated. Establishment of the Global Environment Facility reflected a global agreement that actions of a single country could benefit others. Technical assistance to developing countries should help in spreading the skills needed to implement environmentally sound technologies. Experience with economic instruments was still needed along with complementary regulations. UNCTAD was well placed to explore the relationship between trade and environment and discussions on such issues should be pursued. The European Union supported the proposal (para. 77 of TD/B/40(2)/6) to request that the Standing Committee on Commodities examine in depth the internalization of external environmental costs in both commodity-producing and commodity-consuming countries. It was appropriate for UNCTAD to take up this subject from a market-based orientation in the context of trade and environment. In the light of the results of Marrakesh, the time was ripe to explore the establishment of an ad hoc working group on "trade and sustainable development". In line with the Cartagena Commitment, such a group could, before UNCTAD IX, discuss concrete issues and proposals. While it might be premature to consider highly technical concepts such as environmental value added tax and tradeable emission permits, UNCTAD was the appropriate forum to evaluate in due course the results of the work of the aforementioned ad hoc working group.

199. The representative of **Brazil** said that the concept of "internalization of external costs" had moved beyond the circles of economists into the public debate on sustainable development. The more popular slogan, "getting the prices right", masked the complexity of the problem. Environmental problems varied in terms of specific ecological circumstances, the social and economic factors, the varying degree of priority given and the subsequent financial

investment it required. Formulating the appropriate policy mix required consideration of a number of factors. Additional experience and analysis on the requirements and consequences of the use of both regulatory and economic instruments were therefore needed. This was especially true in the case of developing countries, where institutional and administrative structures and resources were often not readily available. Regarding the option of correcting government policies having adverse environmental impacts, particularly the issue of subsidies, he said that little justification existed for subsidies which distorted international markets, depressed prices and caused countries in need of hard currency to over-exploit their natural resources. However, individual Governments could not do much with regard to international commodity prices which did not cover environmental conservation costs. He supported the idea of multilateral commodity-related environmental agreements, with the proviso that commodity producers adopting environmental action be protected from reduced remuneration arising from such action. He did not agree with the description of low commodity prices, in relation to environmental costs, as one which included subsidization either on the part of the foreign importer or the domestic producer, on the grounds that such a concept was based on imputed costs which in turn were determined by country-specific standards of environmental protection which could not be generalized. Furthermore, it was necessary to evaluate the consequences of the use of economic instruments, including their impact on international trade and on the sustainable development programmes of partner countries. While economic instruments were generally considered to be less intrusive than regulatory measures, the choice of product to be taxed, for instance, could cause distortions with ultimately negative effects on the environment. As an example, exemption of recycled paper from taxes on paper might discourage reforestation for pulp production. As regards international cooperation, he remained to be convinced of the merits of international tradeable carbon emission entitlements, given that experience in this field had so far been less than encouraging. Conversely, international resource transfers could play an important role. The Board could, he believed, examine the issue of environmental financing with regard to internalization of external costs as well as the maintenance of external environmental benefits. He concluded by expressing support for the formation of a working group on trade and environment, provided that an agenda could be found which would emphasize developmental concerns and ensure complementarity with the working programme of the future World Trade Organization.

200. The representative of **Ethiopia** reported that the Transitional Government of Ethiopia had taken action to safeguard an environmentally sound development process. The Science and Technology Commission promoted the use of environmentally sound technology; structural adjustment programmes included subsidy reduction. Allocation of government expenditure had been shifted from the defence sectors to economic infrastructure. She believed that for developing countries to undertake internalization of external costs effectively and successfully, the support of the UNCTAD secretariat and of the developed countries would be indispensable. Regarding the elimination of subsidies, she pointed out that farmers in developed and in developing countries did not have the same level of capacity to absorb the cost of necessary inputs. The agricultural sector of developing countries would not be able to meet export requirements unless assistance was forthcoming to cover the cost of fertilizers and pesticides. While the elimination of agricultural

subsidies increased government revenues which could ultimately benefit the poor and thus contribute to the internalization of external costs, the cost of such a policy measure was unaffordable in the immediate term. Expressing regret that scant reference had been made as to how the least developed countries could meet the challenges of internalization of external costs, she affirmed her Government's commitment to the implementation of the Rio Declaration, and its view that differentiated responsibility, along with international cooperation and special assistance to countries in need were effective ways of achieving the desired goal.

201. The representative of **Switzerland** said that various economic market-based instruments designed to internalize external costs were in operation in his country and new policy proposals were under way. Regarding internalization policies, as discussed in the secretariat's report, he enumerated certain implementation obstacles. Foremost among these was that even if the principle of internalization of external costs was universally accepted, its application would inevitably meet with political resistance because of vested economic interests. The actual issue at stake was not environmental nor even economic as such, but rather political in dimension. Furthermore, most developing countries were currently undertaking structural adjustment programmes, which also aimed at correct pricing policies through the establishment of property rights and of free market fundamentals. He deduced that these countries would want to evaluate the results of these programmes first before embarking on internalization policies. He pointed out that the lack of administrative and fiscal resources of developing countries to redirect incentives and financial flows implied in internalization of external costs could be a hurdle. The relationship between commodity exports and environmental degradation was not as linear as suggested in the paper: export products such as coffee and tea had much less environmental impact than products for domestic consumption like cassava and rice. He suggested that emphasis be placed on production activities rather than on the end-product itself. As for the proposed international commodity-related environmental agreements, he noted that the lack of international coordination and implementation had limited the success of earlier agreements. He doubted that full cooperation could be achieved if the price premium were to be utilized for the purpose of sustainable development. Moreover, disbursing compensation to exporting countries was tantamount to providing incentives for a product or a production process which should be discouraged in the first place while neglecting diversification promotion. Resources should go to addressing the environmental issue with such options as diversification and transfer of technology. Switzerland would welcome the creation of an intergovernmental group of experts on diversification. UNCTAD's work in this area, both in terms of theory and practical experience, could be a valuable input into the work of the future World Trade Organization.

202. The representative of **Mexico** considered that it was essential to analyse the potential trade distortions and secondary effects arising from the use of proposed measures for internalizing external costs, particularly as these could result in higher prices of developing countries' export products which in turn could undermine their trade competitivity. Sustainable development could best be achieved in a climate of dynamic international economic growth based on a predictable, equitable and non-discriminatory multilateral trade system; environmental issues must not be used as an excuse for trade

protectionism. Further work was needed on areas such as determining the optimum level of environmental protection and setting specific objectives in pollution reduction. The capacity of developing countries to internalize environmental costs depended on their general level of development and on the support offered through international organizations such as UNCTAD. If developing countries had to reconcile the need for rapid export-led growth with the need to conserve their natural resources, it was imperative that improved market access be allowed for their non-traditional exports. It was equally important that developing countries have access to adequate financial and technological assistance regarding environment conservation techniques and applications. The transfer of obsolete technology that was environmentally harmful must be avoided. Regarding economic measures, these were important for attaining environmental goals, in persuading other countries to follow a similar strategy, in protecting national industry and in fulfilling international commitments on the environment. Their implementation, however, must take into account the fact that the causes as well as the consequences of environmental problems differed between the developing and developed countries. Among the former, lack of resources was paramount, while among the latter the chief cause was consumerism. Integrating environmental protection into a country's economy required a system-wide review of economic policies, natural resources management, technological innovation, participation of the public at large, research priorities and investment practices. Each individual country thus had to define modes of internalization of external costs according to their circumstances and priorities. Mexico, through an agreement of environmental cooperation with the United States and Canada, had an instrument allowing economies at different levels to attain sustainable development and to meet the resulting costs in a coordinated way. The Board's decision to examine the trade and environment issue during the first part of each of its annual session had full support from Mexico and, in this connection, at the first part of the forty-first session, the Board could examine the effects of the proposed measures on market access and competitivity, particularly for developing countries' exports. His country likewise supported the suggestion that the Standing Committee on Commodities examine further the internalization of external environmental costs for commodities.

203. The spokesman for the **Asian Group** (Indonesia) stated that international cooperation was indispensable not only in terms of adopting a concerted global strategy on the environment, but also in terms of assisting developing countries in implementing programmes aimed at achieving sustainable development and alleviating poverty. For most developing countries, internalization was still a policy option and given the lack of financial and technological resources, many such countries might opt for policies on which the only consideration was that of trade and the economy. The capability of developing countries to internalize external environmental costs could only be realized with stable economic growth which allowed for the pursuit of sound environmental management. In this regard, international support was needed to ensure that environmental policies were coherent with national developmental goals and priorities. Assistance in terms of capital equipment and appropriate skills, for instance, could be provided. Further study was needed to analyse the impact of internalization on trade and on the competitiveness of internationally traded products, particularly those of environmentally friendly products. Additionally, efforts should be aimed at preventing

conflicts arising from differences in environmental policies among countries, taking into consideration their specific needs and levels of socio-economic development. International commodity-related environmental agreements, like the Framework Convention on Climate Change and the Convention on Biological Diversity, should provide for the need of facilitating and financing the transfer of environmentally sound technologies on favourable terms. His Group supported the secretariat's work on the impact of internalization of external costs on trade and competitiveness.

204. Calling attention to the complexity of the issue, the representative of **China** stressed the need for international cooperation which would take into consideration the different economic development levels and needs of all countries. With many developing countries facing the arduous tasks of poverty elimination and economic development, they could not invest financial resources in new technology even when these were environmentally "friendlier". By the same token the use of the environmental issue as a pretext for setting up new types of trade barriers must be excluded. Assistance to developing countries in their economic development as well as in their environmental protection measures was the fundamental way of achieving sustainable development. The developed countries and the international organizations concerned should give full consideration to the interests of the developing countries and provide them with financial and technical assistance in their pursuit of economic development and environmental conservation.

205. On behalf of the **Nordic countries** (Denmark, Finland, Norway and Sweden) the representative of Norway emphasized the importance of global cooperation in this area, citing limitations on how much individual Governments could achieve by acting independently without risking market losses. The UNCTAD secretariat's suggestion to put in place "an efficient system of incentives at the international level to induce cooperative environmental protection" merited support although vigilance was needed to guard against any trade discrimination which might arise. International cooperation was also needed on dealing with transboundary external environmental costs as the secretariat's report had noted. The Nordic countries being the end-recipients of acid rain caused by emissions from other countries deemed this concern particularly acute. The correction of market failures was a question of utmost importance, as failure to allocate a price on pollution or environmental degradation led to welfare reduction and price distortion; likewise, policy failures distorted allocative efficiency. Correcting market and policy failures thus represented a "win-win" situation. He fully supported the secretariat report's conclusion that "open markets remain a key to the international transmission of internalization of external costs", adding that the private sector also played an extremely important role. In this context, he noted the efforts of the Business Council on Sustainable Development and its task force on internalizing environmental costs. Notwithstanding the flexibility of the market-based approach, it needed to be complemented by regulatory measures. The premise that technological innovation was best achieved through the application of economic instruments for internalization of external costs was open to questions, as feasibility depended equally on the ways of implementing the regulatory measures or economic instruments, or combinations thereof. UNCTAD's initiative regarding guidelines for mutual recognition of national eco-labelling schemes was welcomed and the commodity sector was particularly relevant for UNCTAD's continued work on these

questions. The Standing Committee on Commodities was already engaged in this work but further guidance from the Board might be useful. Attention should be focused on production methods, including the choice of technology. In this regard he alluded to the possibility of funding through the Common Fund for Commodities. The Nordic countries looked forward to the completion of the conceptual study on internalization of external costs in the commodity sector; preparation of a case study on policy/market failures and on a mix of policy measures for the internalization of external costs would be very useful. He then proposed that the secretariat investigate "cooperative approaches to providing incentives for switching to more environmental sound technologies", an area which also demanded practical testing of different measures. The Nordic countries agreed that: "global optimality demands global cooperation", especially in order to assist developing countries. UNCTAD had undertaken valuable analytical work on various types of market-based instruments that might facilitate a global approach to the internalization issue, and could therefore make an important contribution towards the trade and development debate.

206. The representative of **Egypt** said that discussion on internalization should be centred around three fundamentals: international cooperation, the intrinsic linkages between poverty and environmental problems in developing countries, and the balance of commitments between developed and developing countries. On the last point, she called the Board's attention to the essence and spirit of the Rio Declaration. Unilateral regulatory measures, as linked to trade, could lead to unpredictable, non-transparent and discriminatory trade practices. Noting that these measures were gaining ground in developed countries, she called for further work in this area to analyse the effects and consequences of such measures on sustainable development, particularly with respect to the developing countries. Economic instruments adopted on a unilateral basis could exacerbate the differentiation of treatment between imported and local products. Evoking the idea of an internationally agreed command and control approach, she believed that UNCTAD could explore multilaterally-based measures which would take into account the interrelationship between development, international trade and the environment. Another area of concern to developing countries was the relationship between demand elasticity and the polluter pays principle. If developing countries exports faced elastic demand while their demand for imports was inelastic, these countries would bear the major costs of internalization. On the issue of valuation, damage had to be valued if it was to be paid for: the same degree of damage could legitimately have different costs depending on the country. The task was rendered more complicated by such factors as levels of production and output of pollutants, which might be a non-linear function or entail synergistic effects. The assessment of the impact of the internalization of external environmental costs on sustainable development would be complete only when trade effects had been included. There were also other factors which might be relevant, such as exporters' local environmental and socio-economic conditions, development needs and priorities, and the possibility of compensatory schemes to alleviate the burden of meeting international trade restrictions and fulfilling environmental goals.

207. The representative of **the Former Yugoslav Republic of Macedonia** said that the problem of internalization of external costs was particularly difficult

for countries in transition and developing countries, where slow economic growth, high unemployment rates and declining standards of living dominated and where environmental concerns were consequently secondary issues. The application of economic and other instruments to environmental management in these countries, especially with regard to the internalization of external costs, was one more challenge. These countries had urgent developmental priorities which, in the absence of improvement in production technologies, would most likely exacerbate environmental degradation. The support of the international community to countries pursuing development policies designed to achieve acceptable growth rates through the promotion of efficient resource use, would benefit both the environment and the economy. The difficult situation in countries in transition necessitated additional efforts in formulating international instruments for the internalization of external costs in world trade which would enhance the dissemination of sustainable development methods. This could include assistance in the transfer of improved technology, promotion of environmental awareness as well as enhanced market access. UNCTAD could lay the groundwork for such a programme.

208. Endorsing the statement by the spokesman for the Asian Group, the representative of **India** said that while it was important to keep in view the needs of future generations, account had to be taken of the basic requirements of the present generation. In this context, he fully agreed with the premise put forward in the secretariat's report which stipulated that sustainable development as a development concept sought "to do away with poverty, not just pollution". Regarding the relationship between demand elasticity and cost internalization, measures were needed to ensure that the export products of developing countries did not become uncompetitive and that declines in demand did not ensue as a result. Internalization should not lead to price increases which rendered essential products unaffordable to the poor. If costs were minimized by shifting them to the poor, lower costs might correspond to an even greater loss of welfare. Factors such as increased flow of environmentally sound technologies to developing countries, improved market access, and general public awareness of environmental concerns contributed more to the achievement of sustainable development than economic instruments did. Agricultural protectionism in developed countries increased farming intensity to a level that was not environmentally and economically justifiable, and impeded market access of low-cost producers. Lowered income in developing countries could exacerbate environmental pressures, through worsening the levels of poverty and through compelling these countries to intensify agricultural practices. The issue of sustainable development should not be approached on a piecemeal basis, but had to be tackled as a major cooperative effort of the world community. UNCTAD should study the effect of internalization on selected key sectors important to developing countries, bearing in mind welfare and poverty-alleviation components. UNCTAD could also develop a technical cooperation programme in this area, jointly with donor and aid agencies along with collaboration from policy sciences' research and policy analysis agencies, universities and non-governmental organizations involved in resource management.

209. The representative of **Canada** noted that the Board's continuing consideration of this subject meant that a great deal of attention was being focused on achieving sustainable development. This attention in itself was useful, he believed. He then turned to the paper prepared by the secretariat,

commending the way in which it had explored the idea of getting the right mix of policy tools and had stressed the need to understand the policy context. It had also made the important point that narrowly focused action could result in simply shifting external environmental costs rather than internalizing them. While it had paid attention to the role of present market interventions such as subsidies, and had addressed the question of full cost pricing and international implementation of environmental policy, the role of regulation had possibly been dismissed too hastily. Environmental assessment of policies as an instrument of internalization could have been given more attention and a discussion of the practicality and/or feasibility of different instruments would have been a welcome addition. However, the text in Box 3 of the document, relating to the Canadian cod fisheries, gave a misleading picture of the serious situation affecting the cod fishery. First, there had been insufficient attention paid to the role of foreign fishing fleets, including vessels flying flags of convenience or without nationality, in the destruction of the valuable cod fisheries on the Grand Banks of Newfoundland. This particular cause of the decline of the cod stock was a policy failure on the part of distant-water fishing nations, not on the part of Canada. The United Nations had convened, as part of the follow-up to UNCED, the Conference on High Seas Fisheries to address the issues of effective conservation and management regimes for straddling stocks and highly migratory species on the high seas, with a view to preventing over-fishing and to allow for sustainable development of fisheries. Needless to say, Canada was participating actively in this Conference. Furthermore, the text failed to acknowledge that the decline of the cod fisheries was caused by a complex mix of factors including environmental factors. Despite the fishing moratorium imposed by the Canadian Government, the stock was continuing to fall at an alarming rate. Practices such as discarding of small fish had more to do with market pressures as reflected in price differentials than any "inadvertent" policy but the Canadian Government had adopted strict regulations to minimize discarding. While commercial catches had nearly doubled in the decade between 1978 and 1988, the levels were far below those of the 1960s and early 1970s. Stocks had increased rapidly following the extension of fisheries jurisdiction. The reference to the 1992 allowable catch as having been set at an excessively high figure of 185,000 tons did not take into account the revision downwards to 120,000 tons early in that year or the two-year moratorium imposed on 2 July 1992 as soon as the results of the new scientific studies had confirmed the rapid decline of the stock. With regard to future work in UNCTAD, the proposal to examine cost internalization in commodity markets was a good one but the approach taken to the issue should be broadened to include how to ensure that resource prices reflected full costs and the role of internationally traded emission permits. Attention might also be given to examining ways of financing environmental action. In addition, information issues such as those presented in paragraphs 43 and 44 of the document might be explored, including a discussion of full-cost accounting and case studies of successes in resource pricing and their effects on sustainable development.

210. The representative of **Algeria** said that in view of the absence of experience on the use of internalization instruments among developing countries, UNCTAD should undertake further analysis, particularly on the impact of such economic instruments on developing countries and their principal exports. Existing and potential regulations as well as financial and administrative constraints should likewise be further investigated,

especially from the point of view of developing countries. For instance, the polluters pay principle as currently applied in certain developed countries could be adapted for use in developing countries. Noting that the concept of internalization of environmental costs was relatively new and its definition still evolving, she said that its further elaboration should be centred on the principle of common but differentiated responsibility. The issue of correct pricing of commodities, both renewable and non-renewable, was of critical importance. The creation of a special working group on trade and environment, with a work programme aimed at, *inter alia*, assisting developing countries attain sustainable development would have her country's full support. Such work could also enrich, if not complement, that of the Standing Committee on Commodities and of the World Trade Organization.

211. The representative of **Australia** said that the secretariat's report had provided an excellent basis for the discussion of the internalization of external costs and that it formed a welcome contribution to the study of economic instruments. Her delegation had found the report's discussion of the international dimension of cost internalization particularly useful, especially since this was a new area on which data were still scarce. Two areas where work could be undertaken were: the potential shortcomings and side-effects of various instruments and the importance of educational extension services and greater community involvement. UNCTAD could usefully explore further the international dimension of cost internalization, including the detailed implications and practical application of international commodity-related environmental agreements.

Action by Sessional Committee I

212. At its 5th (closing) meeting, on 28 April 1994, Sessional Committee I approved the agreed conclusions on agenda item 4 (TD/B/40(2)/SC.1/L.3) and recommended them for adoption by the Board.

Action by the Board

213. The action taken by the Board on agenda item 4 is reported in TD/B/40(2)/24 (Vol. I), section I.A (see agreed conclusions 411 (XL)).

Chapter IV

REVIEW OF PROGRESS IN THE IMPLEMENTATION OF THE PROGRAMME OF ACTION FOR THE LEAST DEVELOPED COUNTRIES FOR THE 1990s

(Agenda item 5)

214. For its consideration of this item, the Board had before it the following documentation:

Least Developed Countries 1993-1994 Report (TD/B/40(2)/11 and Overview).

Consideration in the Special Session Committee

215. The **Chairman** said that the Committee was entrusted with the tasks of reviewing progress in the implementation of the Programme of Action for the Least Developed Countries for the 1990s and elaborating the preparatory activities for the Mid-term Global Review of the Programme of Action. The Least Developed Countries Report was the only report in the United Nations system on LDCs, and as such it had very special relevance to the LDCs, as well as to their development partners.

216. In its resolution 48/171, the General Assembly had decided to convene a High-level Intergovernmental Meeting to carry out the Mid-term Global Review on the implementation of the Programme of Action in 1995. The General Assembly had requested the Board to consider, at the present session, the elaboration of the preparatory activities for the Mid-term Global Review, including intergovernmental, expert, sectoral and inter-agency preparatory meetings and the substantive documentation. The Mid-term Global Review assumed added significance in view of the important developments - notably the enlargement of the list of LDCs - which had taken place since the adoption of the Programme of Action. The implications of that enlargement, particularly in regard to LDCs' external support requirements, needed urgent consideration.

217. He emphasized that the full and effective participation by representatives of LDCs and their development partners in the preparatory activities for the High-level Intergovernmental Meeting and in the Meeting itself was a critical prerequisite for the success of the review. He called for the cost of participation of LDCs in the Mid-term Global Review to be covered under the regular budget of the United Nations.

218. The **Director-in-Charge of the Division for Least Developed, Land-locked and Island Developing Countries**, referring to the preparations for the Mid-term Global Review of the Programme of Action, described the activities envisaged by the UNCTAD secretariat to assist intergovernmental work on the preparation for the Mid-term Review. Those activities included expert, inter-agency and regional follow-up meetings. He emphasized the importance of effective and adequate participation of LDC delegations in the High-level Intergovernmental Meeting.

219. Introducing the Least Developed Countries 1993-1994 Report, he said that, besides providing an assessment of socio-economic trends and prospects in LDCs, the Report specifically addressed the question of donor response to the

special needs and circumstances of LDCs, as well as two salient issues in human capacity-building, namely health and education. He referred to the improved growth performance of some one quarter of LDCs, in which per capita output had increased during the 1990s. That had contributed to the increase in the rate of growth of LDCs as a whole to around 2 per cent in 1993. The overall picture, however, remained extremely bleak. The socio-economic situation of African LDCs was a source of particular concern, despite the better growth performance of several of them. He attributed the lack of progress in improving the socio-economic performance of LDCs as a whole in recent years to a number of factors: the failure of reform efforts to promote fundamental structural transformation; the political conflicts and civil strife experienced by an increasing number of LDCs; adverse climatic conditions, exacerbated by high vulnerability to natural disasters; the continued adverse external economic environment facing LDCs, characterized by little progress so far in the implementation of ODA targets adopted in the Programme of Action, the continued heavy debt burden and the severe squeeze on trading opportunities; and finally, the persistent decline in human welfare and inadequate progress in mobilizing and developing human capacities.

220. The good progress in the socio-economic performance of nearly one quarter of LDCs, including several African LDCs, testified to the validity of the conviction of the international community, as expressed in the Paris Declaration, that the decline in the socio-economic conditions in LDCs was indeed reversible. He stressed that the Mid-term Global Review offered a unique forum where LDCs and their partners could consider and agree on concrete national and international actions to accelerate the pace of the implementation of the Programme of Action.

221. The spokesman for the **least developed countries** (Bangladesh) said that the UNCTAD secretariat had produced yet another excellent issue of the Least Developed Countries Report. The Report's analyses and information had been particularly useful to LDCs in terms of both national policy-making and negotiating in different forums.

222. It was quite clear that very little progress had so far been achieved in attaining the objective of the Programme of Action in terms of reactivating and accelerating the development process of LDCs. On the contrary, LDCs' economic growth rate continued to remain negative in per capita terms, which meant deteriorating living conditions. That was particularly true in the case of African LDCs, where economic decline continued unabated.

223. There was a dichotomy between the intensified and far-reaching reform efforts of LDCs on the one hand and the lack of progress in providing the requisite support by the development partners on the other, which was viewed with deep concern by LDCs. The level of ODA had remained flat since the adoption of the Programme of Action and, in particular, external support to underpin economic adjustment in LDCs had remained inadequate. Most of the aid flows were tied to projects, whereas a major shift to programme-type assistance was called for to support adjustment. Programme assistance itself was provided in an unpredictable manner. Furthermore, no progress had been made in adjusting ODA targets and commitments in the light of the recent expansion in the list of LDCs. The debt burden of LDCs continued to be exceptionally crushing, and the various debt relief measures introduced so far

had clearly proved to be inadequate to provide decisive relief. The external trading environment facing LDCs continued to worsen to the point that their already meagre share in world trade had fallen from 0.6 per cent in 1982 to 0.3 per cent in 1992. The current level of their export earnings was exactly what it had been some 12 years before.

224. The concerns of the LDCs had not been adequately reflected in the Final Act of the Uruguay Round. He earnestly hoped that, in the implementation of the Uruguay Round agreements, the international community would be more responsive to the needs of the LDCs and that the special and differential measures for those countries would be implemented in a supportive manner. He recalled that the Marrakesh Declaration itself had aptly underscored the need for implementation of the special provisions for the LDCs.

225. As regards the question of increased participation of developing countries in international trade and sustainable development, he stressed that financial and technical assistance and foreign investment should form part of the required external support package. It should be ensured that internalization of environmental costs did not undermine poverty alleviation programmes of the LDCs.

226. The Mid-term Global Review would provide an important opportunity to take full stock of how much LDCs and their partners had done in implementing the Programme of Action, as well as to consider and agree on new measures to speed up the realization of its objectives effectively so that the second half of the decade did not prove to be a lost quinquennium. To facilitate the work of the Committee on the question of preparations for the Mid-term Global Review, the Group of 77 would table a draft decision and urged the Committee to adopt it. He called upon development partners to provide adequate resources to help in the implementation of the activities related to the Mid-term Global Review.

227. In his capacity as the representative of **Bangladesh**, he said that his Government had been steadily liberalizing its trade regime, and significant progress had been achieved in recent years in reducing non-tariff restrictions on trade, rationalizing tariff rates and improving export incentives. Most imports were subject to customs duties, with rates averaging around 36 per cent. The number of products subject to import bans had been progressively reduced, and procedures had also been streamlined and liberalized. Customs duties on capital machinery imports for export-oriented industries had been withdrawn, and that had created a favourable climate for investment in export-oriented industries. An export development strategy for 1992-2000 had been developed, and an Action Plan had been prepared to implement the export strategy. Moreover, a National Committee under the Chairmanship of the Prime Minister had been established to solve outstanding problems in the export sector.

228. The spokesman for **African LDCs** (Sudan) commended the UNCTAD secretariat for the excellent quality of the Least Developed Countries 1993-1994 Report. Since the adoption of the Programme of Action, the plight of the African LDCs had continued to assume tragic proportions and their number had increased to 32, with about 64 per cent of the total population of Africa. Several domestic and external factors had seriously impeded their ability to make the contribution expected of them to the implementation of the Programme of

Action. Their aggregate GDP growth was estimated to have been negative in 1992 for the third consecutive year. Estimates for 1993 and projections for 1994 indicated that, while the decline had halted, growth had scarcely resumed. Since 1990, several African LDCs had been engaged in implementing economic reform programmes. The objectives of those programmes, which were initially focused on macro-economic imbalances and stabilization, had become more complex and arduous as they shifted to promoting growth through market-oriented reforms. However, those changes and adaptations in economic policies had largely contributed to higher inflation rates and often exacerbated social tensions by imposing inequitable burdens of adjustment on the population, particularly on the most vulnerable groups.

229. The serious commitment of the Governments of African LDCs in adopting major reforms had not been accompanied by adequate financial support by development partners. Of the world's 26 severely indebted low-income countries, 18 were African LDCs. The debt relief measures adopted so far were inadequate to restore their external viability. He called for outright debt cancellations, since reschedulings did not resolve the basic debt issue but merely postponed the burden while adding to the debt stock.

230. The African LDCs' heavy dependence on commodity exports was adversely affecting their export earnings. He urged development partners to implement the recommendations of the Programme of Action in the area of diversification by helping LDCs modernize production, as well as distribution and marketing systems. As exporters of primary products, African LDCs weakened by recession, foreign debt and reform programmes were unlikely to be major beneficiaries from any growth in world income resulting from the Final Act of the Uruguay Round. Furthermore, any benefits that those countries might secure were likely to be offset by the erosion of existing preferences. African LDCs that were net importers of food would be hard hit by higher world prices for food products. This called for appropriate compensatory measures to be taken by the international community.

231. With regard to the deepening social crisis in African LDCs, he urged the international donor community to support LDCs' efforts to ensure that the poor had access to health care, education and other services.

232. He stressed the importance of adequate preparations for the Mid-term Global Review and called for adequate financial provision to be made to meet the cost of LDCs' participation. The UNCTAD secretariat should be provided with the necessary resources to help in the implementation of its planned activities for the Mid-term Global Review. He called upon the LDCs' development partners to make available adequate resources in that connection.

233. The spokesman for the **Asian Group** (Nepal) expressed his appreciation for the Least Developed Countries 1993-1994 Report, and especially for its focus on health and education. The Asian Group stressed that the challenge faced by LDCs was growing. Although certain LDCs had made some progress, that progress was not significant. The case of the African LDCs was particularly worrisome, since their economic and social performance over the last several years had been poor. Nevertheless, those countries had been bold enough to initiate sweeping reforms.

234. Referring to national experiences with fiscal and trade policy reforms, as well as donors' responses to the needs and circumstances of the LDCs, he said that the Report rightly pointed out that, in the absence of sustained international solidarity in favour of LDCs, the danger of their increased immiserization was very real. He strongly urged the development partners of the LDCs to provide LDCs with the requisite level of official development assistance, to cancel all bilateral debt and also to take measures to reduce the debt stock and debt-service burden for multilateral debt.

235. The spokesman for the **European Union** (Greece), said that the General Assembly, in its resolution 48/171, reaffirmed the commitment of all partners to the Paris Declaration and the Programme of Action for the Least Developed Countries and, inter alia, called upon UNCTAD to initiate further innovative measures to provide and mobilize effective support for the implementation of the Programme of Action. He stressed that the particular problems of the LDCs must be addressed whenever they were relevant to the issues on the agenda of the Board or the agendas of subsidiary bodies. He expressed serious concern over the increasing gap between the LDCs and the rest of the developing world.

236. The European Union would have appreciated it if the Least Developed Countries 1993-1994 Report could have been made available on time. As it was, the European Union was not in a position to comment on the Report at the current session. The European Union had initiated separate consultations in Geneva with the least developed countries within the framework of an informal exchange of views on the Mid-term Global Review. It was fully understood that there was a major need for participation of representatives from the capitals of LDCs in the principal meetings of UNCTAD and, on that basis, he confirmed that the European Union would spare no effort in supporting such participation. It was going to explore the possibility of using technical facilities to that end.

237. The European Union was conscious of the different stages of development and problems of LDCs and wished to emphasize that the difficulties that the African LDCs were facing deserved special attention. The European Union's net disbursements, bilaterally and multilaterally, had stood at approximately $8.1 billion in 1992, almost 50 per cent of the total aid from all sources to LDCs in that year. The European Development Fund had provided about 11 per cent of the world total and was a much larger donor than any individual State. The average percentage of European Union GNP attributed to the LDCs on an ODA basis had been 0.12 per cent in 1992, with varying levels of donor performance.

238. He reiterated the importance of respect for human rights and good governance for development. A number of lessons could be drawn from the LDCs' experiences: (a) LDCs should, on the one hand, avoid negative elements in their policies and, on the other, take measures conducive to long-term and sustainable development, the promotion of individual initiative and the participation of all their people in the development process; and (b) specific international support measures in areas such as ODA, debt relief and external trade could play a significant role.

239. In spite of the economic constraints facing the European Union, it would continue to work for the effective implementation of the Programme of Action for LDCs within various international mechanisms, including those provided by the Lomé Convention. He was looking forward to the arrangements to be decided for the elaboration of the preparatory activities for the Mid-term Global Review on the implementation of the Programme of Action.

240. The representative of the **United Republic of Tanzania** noted that the economic performance of some LDCs, as described in the Least Developed Countries 1993-1994 Report, had shown signs of improvement, but the overall situation remained dismal. The meeting of LDC Ministers in Vienna in June 1993 had voiced profound concern over the continuing deterioration of the socio-economic outlook in the LDCs. It was particularly discouraging that, while the LDCs had accommodated many of the donors' concerns in their reform programmes, their development partners had failed to live up to their commitments in the Programme of Action, especially in terms of external financial flows. The ODA/GNP ratio for the DAC donors had actually dropped from 0.09 per cent in 1989 to 0.08 per cent in 1991.

241. The debt relief measures for LDCs had so far proved to be inadequate in reducing their debt overhang. Stronger debt-relief measures were necessary, including full cancellation of all bilateral official debt and other measures aimed at substantially reducing the burden of debt owed to multilateral financial institutions and commercial creditors. He called for supportive implementation of special and differential measures for the LDCs, as contained in the declaration and decision in the Final Act of the Uruguay Round. The purpose should be to increase the share of LDCs in world trade through the granting of better terms of trade for their commodities and other goods and services in order to improve their earnings and purchasing power.

242. The representative of **Bhutan** said that, despite competing demands for assistance funds due to the increasing number of global emergencies and humanitarian crises, the development partners had the requisite capacity to devise ways and means to provide required ODA support to LDCs. The overall progress in the implementation of the Programme of Action was far from satisfactory and the ODA flows had not improved since the adoption of the Programme.

243. He highlighted the progress made in terms of policy, institutional and administrative reforms in Bhutan in recent years. Those reforms included decentralization and increasing popular participation, growth of the private sector, and reforms in trade and industrial policy which emphasized processing activities for higher value-added. The modernization process was being carried out with due regard to Bhutan's fragile ecology. The Government had adopted a policy of preserving the country's rich bio-diversity by maintaining a minimum of 60 per cent of the forest cover, and it had recently signed a bilateral agreement on sustainable development with the Government of the Netherlands. Bhutan also attached great importance to preserving its traditional and cultural heritage. Regarding social services, universal child immunization had been achieved in 1990, infant mortality had been greatly reduced, and universal access to primary education was to be achieved by the year 2000.

244. With regard to the forthcoming Mid-term Global Review, he emphasized the need for the provision of adequate resources to facilitate the participation of the LDCs in the entire process leading up to the Mid-term Global Review Meeting and in the Meeting itself.

245. The representative of the **United States of America** commended the UNCTAD secretariat for the high quality of the background documentation, which contained much useful information and thoughtful analysis. The United States generally agreed with the conclusions of the Report, and in particular with the secretariat's analysis of the debt problem. Africa's debt burden was a serious constraint to development. The United States was working actively to alleviate the bilateral official debt burden for the LDCs, and had joined with other creditors in the Paris Club in forgiving 50 per cent of non-concessional debt for LDCs on reform programmes. Moreover, in addition to $831 million in ODA debt forgiveness in 1990-1992 for 12 LDCs, the United States had also forgiven $400 million in food aid debt. Most African countries eligible to participate in this programme had had a total write-off of all concessional debt owed to the United States.

246. As regards structural adjustment, the process could not be viewed as leading immediately to economic recovery, but should be seen rather as a necessary first step. It must also be accompanied by other measures such as privatization to improve the business climate before economic recovery could be expected. The LDCs' marginalization in world trade arose not only from their dependence on primary products, but also from the significant loss of market shares to other, more efficient producers. African nations needed to address their lack of competitiveness to avoid losing even more of their traditional exports to others. Meanwhile, diversification into other products and manufacturing would be helpful, but must be addressed with care. Investment decisions should best be left to the private sector. LDCs needed to reform and liberalize aggressively if they were to avoid further economic decline and marginalization.

247. The representative of **Ethiopia** said that the economic performance of African States in general and sub-Saharan Africa in particular had been disappointing over the last two decades, with GDP growth rates below the population growth rates. Despite an increase in the volume of exports of the region, the external sector had not performed well, largely because of unfavourable terms of trade, which had declined by more than 6 per cent. Growth momentum was seriously disrupted in most sub-Saharan Africa by domestic and external factors. Despite debt forgiveness and rescheduling, the region's debt stock had changed little. It was against this dismal economic performance that structural adjustment programmes had been introduced in those countries. However, the support of the international community was far below what was required. Despite their bold economic reforms, the per capita income of LDCs had continued to decline each year since the adoption of the Programme of Action. The economic malaise of these countries required a collective effort and collaboration on the part of the international community, which included developed and developing countries, as well as international organizations.

248. Ethiopia was undertaking radical political and economic transformation. In its political reform, the country was in the process of establishing democratically elected government. In its economic reform, it was taking venturesome economic liberalization measures, accompanied by market deregulation and privatization, with a view to enhancing production in agriculture and the industrial sectors, stimulating exports and encouraging investment through foreign direct investment.

249. The representative of **Japan** said that, in 1992, Japan's total ODA disbursements to the LDCs had amounted to nearly $1 billion, which represented an increase of more than 9 per cent over 1990, when the Programme of Action had been adopted. The ratio of grant aid to bilateral ODA to LDCs in 1992 had stood at 92.8 per cent. Part of the grant aid was utilized for the alleviation of debt, as well as for balance-of-payments support. A good number of LDCs had been given debt-alleviation grants towards the repayment of principal and interest on loans since fiscal year 1978. As a consequence of the extended time frame for debt relief, which now covered agreements concluded with Japan between fiscal years 1978 and 1987, an additional $5.5 billion had been made available to LDCs, and nine additional LDCs had become eligible for Japan's debt relief. Japan had also provided balance-of-payments support in the form of grant aid totalling approximately $500 million in the first phase between 1987 and 1989, and nearly $600 in the second phase between 1990 and 1992. A third phase was to be implemented from 1993 to 1995 with $650 to $700 million. Japan offered LDCs duty-free entry and exemption from ceiling restrictions for all products covered by its generalized system of preference scheme.

250. As regards recent developments in LDCs, he noted that the economic performance of LDCs in general had not been very encouraging in the 1990s. However, as noted in the 1992 and 1993-1994 issues of the Least Developed Countries Report, some LDCs had demonstrated good growth performance and had successfully begun to diversify their productive sector. The Government of Japan commended the efforts of these countries and hoped that they would continue to implement their adjustment programmes. He stressed that his Government was determined to continue and strengthen its assistance to LDCs.

251. The representative of Denmark, speaking on behalf of the **Nordic countries**, said that the economic performance of LDCs was varied, with encouraging recent trends in the Asian LDCs on the one hand and an increasingly bleak picture emerging from the African continent on the other. Many LDCs, and in particular in sub-Saharan Africa, were threatened by further marginalization, while there were some welcome signs of progress in about one quarter of the LDCs. The development of those latter countries was marked by a deepening of the reform process and a strengthened capacity for good governance and respect for human rights. The Nordic countries subscribed to the conclusions of the Least Developed Countries 1993-1994 Report to the effect that no society had experienced industrial growth and structural transformation without a rise in the level of literacy, basic education and training; that the positive correlation between an enhanced status for women on the one hand and a lower birth rate on the other was indisputable; that considerable potential existed for improving social policies in the LDCs without detriment to other important areas of expenditure; and that many LDCs would continue to depend critically on ODA, which should be linked more

closely to long-term socio-economic objectives. It was thus essential that Governments in LDCs sustain the reforms undertaken and be ready to cushion the impact on vulnerable groups.

252. Human development meant development of the people for the people and by the people, which was the Agenda for the Social Summit in Copenhagen in 1995. To that end, the poor themselves, including women, must be given a possibility to participate actively in the decision-making process at all levels in their societies. Investment in basic education, health care and training was the foundation on which to build development and sustainable growth. Equally important was to give the poor ample employment opportunities, including, in the case of the rural poor, access to land. Furthermore, a concerted effort to halt and reverse population growth must be made.

253. In most LDCs, increased domestic resource mobilization still left huge financing gaps to be filled by external support. The Nordic countries stressed the importance of the 0.15 per cent ODA target for the LDCs. Pressures on available resources, due to the stagnation in the world economy, should never be used as a justification for aid diversion away from LDCs. She noted that according to this year's Report, the majority of LDCs remained among the hard-core debt-distressed countries in the developing world. Debt problems remained for many LDCs a serious obstacle to their economic recovery. For many debtors, the 50 per cent debt reduction granted by the Paris Club under the so-called Trinidad Terms was not sufficient. The Nordic countries therefore strongly supported initiatives to improve those terms. For some debtor countries, debt reduction of up to 80 per cent would be needed. The Nordic countries also supported the idea of rescheduling the whole stock of debt to allow poor countries to exit from further Paris Club treatment.

254. She further noted that the role and work performed by the LDC Division was most important to the follow-up of the Programme of Action, including the preparation of the Mid-term Global Review. The Division must be seen as a provider of inputs and information to the United Nations system in general.

255. The representative of **China** expressed concern over the overall situation of the LDCs, particularly the African LDCs. The external debt burden, including obligations arising from multilateral debt, continued to be very heavy for those countries. Moreover, their trading opportunities had contracted further. Many LDCs had launched economic and trade policy reforms in recent years, but massive external financial assistance was needed for sustained implementation of those reforms. He called upon the developed countries to enhance the volume and improve the quality of aid.

256. The Uruguay Round agreements would have significant implications for LDCs, and a comprehensive review of the results of the Round for LDCs was required. The LDCs would need additional trade preferences, ODA and debt relief to cope with the adverse consequences that might result from the agreements of the Round.

257. China had long-standing good relations with LDCs. Despite its being a developing country with a very large population and unbalanced economic development, China, in pursuit of economic cooperation among developing countries, would continue to provide assistance to them within its ability and explore appropriate modalities with LDCs in order to make better use of the limited resources available to the LDCs.

258. The spokesman for the **Group of 77** (Chile) underlined that the issues and problems confronting LDCs should be given the highest importance in UNCTAD. Some of those countries had been experiencing great human tragedies in recent times, and yet the international community appeared to remain relatively indifferent to their plight. Their political and social conflicts were in fact caused by pervasive poverty. For those countries to alleviate their poverty, they would have to attain growth rates in the range of 8 to 9 per cent, while their actual growth rate remained below 2 per cent.

259. In 1992-1993, LDCs had faced an unacceptable drop in food production of 11 per cent. To remedy this, UNCTAD should intensify contact with FAO and the regional commissions, especially in the field of agricultural development.

260. Despite international awareness of the problems facing the LDCs, aid and capital flows to them had not increased. ODA needed to be substantially increased in volume and greatly improved in quality. LDCs required greater investment so as to procure new technology, and as they were lacking in human resources, manpower training was as crucial as health and education programmes.

261. He voiced concern over the fate of the LDCs in the wake of the Uruguay Round. It was hard to see how LDCs could benefit from the expected gains in trade, because many of these countries lacked the means and resources to undertake diversification of production. Without the required resources there would be no growth, and dire poverty would continue for many more decades.

262. As regards the Mid-term Global Review on the Programme of Action, the UNCTAD secretariat required adequate resources so as to be able to adequately and comprehensively prepare for the Review, and resources were also needed to ensure adequate representation of the LDCs at the meeting. He regretted that the General Assembly and its Fifth Committee had repeatedly denied additional resources to LDCs and also to UNCTAD's work in favour of LDCs. Without proper preparation and representation, the Mid-term Global Review would have the same results as the Consultative Group and Round Table meetings: the beneficiary Governments, having lacked the means to prepare themselves, would see the agenda and priorities imposed on them by the international financial institutions. If adequate resources were not forthcoming for the ongoing work of UNCTAD on the LDCs, as well as for the Mid-term Global Review and its preparatory meetings, including the donor-recipient meeting, the Review would have no impact and would soon be forgotten.

263. The representative of the **United Nations Development Programme** (UNDP) said that the sustainability of reforms depended on national capacity-building. However, capacity-building, which went to the heart of sustainable human development, had been neglected in development strategies. In the past, the development community had relied on three basic tools for

capacity-building, namely education and training, technical cooperation and civil service reform. The record of all three tools had so far been poor, and new approaches were needed. Capacity-building was the ability to get things done, and this capacity had to be permanent and adaptable to changing circumstances. It should not be equated with training and education. She emphasized that, in LDCs, a great deal had been invested in education and training, but an important problem of under-utilization of human resources remained.

264. UNDP had recently published a book entitled "Rethinking Technical Co-operation - Reforms for Capacity Building in Africa", which documented in a comprehensive way the trends, the history and the current issues involved in efforts to enhance the effectiveness of technical cooperation. The publication highlighted the importance of reform, as technical cooperation represented about a quarter of all aid flows. Technical cooperation as currently conceived had changed little since it was first introduced in the early 1950s. It continued to emphasize the provision of external expertise and training, and thus had not been a useful instrument for addressing some of the other fundamental questions of capacity, e.g. capacity utilization, management and financial environment, and the environment of other institutions, both private and public. She stressed the need to develop a new type of development assistance that was targeted at capacity-building and capacity utilization.

265. The record of civil service reform in LDCs had not been encouraging, although some positive experience had been acquired. She emphasized the importance of "good governance" for mobilizing and motivating people to work for the future of their communities.

266. At the Special Sessional Committee's third plenary meeting, on 26 April 1994, the representative of Chile, speaking on behalf of the **Group of 77** and **China**, introduced draft decision TD/B/40(2)/SSC/L.1/Rev.1 entitled "High-level intergovernmental meeting on the mid-term global review of the implementation of the Programme of Action for the Least Developed Countries for the 1990s". In so doing, he stated that the mid-term review would be all the more important since many of the objectives of the Programme of Action had not been attained. The review would have to be carried out with great care in order to identify the factors that were hindering implementation of the Programme. One such factor was lack of political will, as reflected in the failure of some countries to meet their commitments under the Programme. The proposed meeting of experts from donor countries, multilateral and bilateral institutions and LDCs would be particularly important for the preparation process for the meeting, and the economic commissions and the specialized agencies would also have a crucial role to play. Finally, the UNCTAD secretariat must have the necessary resources both to prepare for the meeting and to follow it up.

Action by the Special Sessional Committee

267. At its third (final) plenary meeting, on 28 April 1994, the Special Sessional Committee approved draft decision TD/B/40(2)/SSC/L.1/Rev.1, as orally amended, and recommended it to the Board for adoption.

268. At the same meeting, the Special Sessional Committee also adopted its draft agreed conclusions on agenda item 5 (TD/B/40(2)/SSC/L.3).

Closing statements

269. The spokesman for the **least developed countries** (Bangladesh) expressed appreciation to the LDCs' development partners and voiced the hope that the cooperation that had prevailed during the Committee's deliberations would continue and thus help ensure a successful mid-term review.

270. The representative of the **United States of America** said that the issue before the Committee was a very complex one, but progress had been made and must be built on. However, it was to be regretted that the Committee had spent more time negotiating its agreed conclusions than discussing the issues. That was not in line with the Spirit of Cartagena, which emphasized the importance of exchanging views, learning from each other and tackling the real problems. It was to be hoped that, in future, resources would be devoted to dealing with the issues at hand, rather than producing documents whose impact would be limited.

271. The representative of **China** said it must be hoped that the Committee's discussions would encourage the international community to attach greater importance to the problems of Africa and the LDCs. From the viewpoint of the revitalization of the world economy, the developed countries had an unshakeable responsibility to help the LDCs to accelerate their development.

272. **The Chairman** said that the Special Sessional Committee's session had been one of convergence. The consensus adoption of a decision and agreed conclusions eloquently testified to the continued high priority that the international community accorded to the development problems of LDCs. The agreed conclusions, in terms of both substantive coverage and policy directions, were an important expression of the high-quality work done at the annual review of the Board. The excellent debate on the item had been further enriched by the informal exchange of views, involving Ministers from several LDCs and high-level experts from LDCs and OECD countries. Overall, the results of the Committee's work on the annual review constituted a strong statement of continued commitment to reversing the socio-economic stagnation and decline in LDCs and to reactivating and accelerating their development process within the framework of shared responsibility and strengthened partnership, as enunciated in the Programme of Action.

273. The preparatory work for the High-level Intergovernmental Meeting on the Mid-term Global Review of the Programme of Action had now begun. One decision which gave cause for great satisfaction was the recommendation to the General Assembly to provide for the cost of participation of LDC delegations. The sense of understanding displayed by delegations on this question augured extremely well for the Mid-term Global Review. He was heartened by the readiness of donor countries to consider making extrabudgetary contributions

towards the participation of LDCs in the preparatory meetings. The UNCTAD secretariat would now be undertaking the substantive work for the Mid-term Global Review, and he strongly urged all donors to make generous extrabudgetary allocations to the preparatory activities of the UNCTAD secretariat.

Action by the Board

274. The action taken by the Board on agenda item 5 is reported in TD/B/40(2)/24 (Vol. I), section I.A. (See decision 412 (XL) and agreed conclusions 413 (XL)).

Chapter V

UNCTAD's CONTRIBUTION TO THE IMPLEMENTATION OF THE UNITED NATIONS NEW AGENDA FOR THE DEVELOPMENT OF AFRICA IN THE 1990s: INVESTMENT PROMOTION, FOREIGN DIRECT INVESTMENT, TRANSFER OF TECHNOLOGY

(Agenda item 6)

275. For its consideration of this agenda item, the Board had before it the following documentation:

> "UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s: investment promotion, foreign direct investment, transfer of technology" - report of the Secretary-General of UNCTAD (TD/B/40(2)/9 and Corr. 1);
>
> "UNCTAD's contribution to the implementation of the United Nations New Agenda for the Development of Africa in the 1990s" - Progress report by the Secretary-General of UNCTAD (TD/B/40(2)/CRP.2).

Consideration in Sessional Committee II

276. **The Chairman** said that the African countries had entered the 1990s facing multifaceted crises in major areas such as food security, population, housing, public health, education, energy, industrial production, trade and environment. Putting Africa on the path of sustainable development would require improved domestic resource mobilization and increased external resources to supplement the domestic efforts.

277. He expressed confidence in the political will and solidarity of the international community in responding to the African challenges. Most African countries had recognized the need to adopt policies to improve the investment climate and were pressing ahead with privatization. Many had taken measures to deal with conflict and civil strife, as well as measures to improve governance. Other positive developments had included intensification of efforts towards integration. However, these efforts had not yet significantly influenced the inflow of private external resources to the continent. He expressed confidence that the Committee's deliberations would contribute towards enhancing African countries' awareness of the factors still impeding inflows of external private resources. He expressed the hope that the Committee's discussions would lead to practicable policy measures to deal with the situation. It was also expected that the international business community, particularly potential investors, would become more aware of the investment opportunities that did exist.

278. Finally, on the question of economic migration, the developed countries must be prepared to assist the labour-surplus countries to adopt the broad-based development strategies and attract the FDI necessary to allow their population to remain and enjoy acceptable standards of living.

279. The **Director of the Division for Economic Cooperation among Developing countries and Special Programmes** recalled that the secretariat had been requested to prepare and submit to the current session of the Board a progress

report, an evaluation of UNCTAD's contribution to the implementation of the New Agenda (a biennial exercise), and an analytical report on investment promotion, foreign direct investment and the transfer of technology. However, the evaluation of UNCTAD's contribution to the New Agenda would be carried out at the forty-first session of the Board so as to coincide with the consideration of the implementation of the New Agenda by the Economic and Social Council. UNCTAD's evaluation of the implementation of the New Agenda would also be used as an input for the General Assembly's 1996 mid-term review of the implementation of the New Agenda.

280. The two experts invited for the Committee's informal session were from the business sector and had been or were involved in locational decisions of multinational corporations. The principal objective of the Board's consideration of investment promotion, foreign direct investment, and transfer of technology was to enhance awareness on the part of African countries of the specific factors which might be discouraging foreign investment in the continent, and at the same time increase awareness of potential foreign investors of investment opportunities that existed in African economies.

281. She briefly outlined the issues discussed in the secretariat's document, namely the reasons for the inadequate flow of foreign direct investment and insufficient local investment, and she referred to the measures already taken by African Governments to improve the investment climate, as well as additional measures that could be taken. She expressed the hope that the Board's deliberations would lead to practicable proposals for actions to stimulate investment in Africa and reverse the current trend of economic decline in the region.

282. A key element in attracting foreign direct investment in particular and stimulating investment in general was the avoidance of disincentives, together with the maintenance of generally sound macro-economic management, political stability and good economic and export performance.

283. The areas that could be singled out as requiring urgent attention included: investment in human resources - including the need to encourage a positive attitude toward learning; development of physical infrastructure; appropriate monetary and fiscal policies; and the provision of the relevant information for purposes of "marketing" the host economy to potential investors. The Director emphasized the imperative need to resolve the conflicts and civil strife that faced a number of African countries, as well as to reduce security-related expenditures and release resources for the social sector, including infrastructural development.

284. With regard to the role of the international community, Africa needed technical assistance in a number of areas related to investment promotion, including facilitation of business-oriented industrial investment ventures between African entrepreneurs and their counterparts in industrial and more advanced developing countries. Other assistance could be directed towards increasing capacity for domestic resource mobilization, establishing investment promotion machinery, and training African nationals in techniques of investment promotion.

285. She concluded by informing the Board that the UNCTAD secretariat was considering the possibility of organizing a symposium on the investment climate in Africa, with the participation of high-level government officials, representatives of transnational corporations and high-level experts.

286. The spokesman for the **African Group** (United Republic of Tanzania) said that the secretariat document contained useful ideas which had been further developed by the presentations of the experts who had participated in the Committee's informal meeting. In spite of various initiatives taken at the international level, such as the United Nations Programme of Action for African Economic Recovery and Development, the Programme of Action for LDCs, and the New Agenda for the Development of Africa in the 1990s, Africa remained the poorest among the developing regions. This deterioration in economic performance was occurring at the same time as most African countries were implementing bold economic liberalization measures aimed at boosting production in the agricultural and industrial sectors, stimulating exports and encouraging further investments, including foreign direct investment.

287. In view of the negligible inflow of private capital, ODA had become the single most important source of external financing in Africa. However, many donor countries were far from fulfilling their commitments with regard to the target of 0.7 per cent of GNP, and he appealed for increased ODA transfers to Africa. He called upon African countries to intensify their efforts in encouraging private investment through foreign direct investment, and invited TNCs and other enterprises to invest in Africa's agricultural and industrial sectors, particularly manufacturing. The limited flow of private investment to Africa had, hitherto, been concentrated in the exploitation of natural resources and the services sector.

288. He called for assistance to African countries to alleviate the constraints affecting foreign direct investment, namely low incomes, low levels of domestic savings, lack of trained manpower with managerial and technical skills, and lack of good infrastructure, including efficient telecommunications, transportation, port facilities, industrial infrastructure and financial services.

289. He dealt briefly with the measures which African countries had implemented to improve capital inflows and prevent capital flight, and also pointed out that African countries were undertaking major efforts aimed at vertical and horizontal diversification of their commodity sector. To succeed in this, Africa needed improved market access, particularly for processed and semi-processed goods, which currently faced tariff escalation and non-tariff measures, particularly in the developed countries.

290. He called for assistance in developing Africa's scientific and technical infrastructure to improve its technological base, enhancing the capacity for assimilation, adaptation and further development of imported technology and improving capacities for R & D. African R & D centres should develop technology locally and ensure that it was commercialized by the productive sector. He expressed the hope that developed countries would permit technology transfer to Africa through direct investment, as opposed to the present situation where preference was given to export of final goods.

291. He concluded by expressing the hope that the international community would provide adequate assistance to African countries to enable them to mitigate any negative impacts on their economies of the results of the Uruguay Round and to take advantage of the opportunities that might arise.

292. The spokesman for the **European Union** (Greece) said that the European Union was in full agreement with most of what was contained in the secretariat's document, which represented a valuable contribution in terms of highlighting the importance of foreign direct investment, identifying the relevant obstacles in Africa and setting out the necessary policies.

293. The challenges facing the continent were enormous and the prospects forecast for the next decade were bleak, but opportunities did exist. In order to exploit these opportunities and meet the challenges, Africa would require stability, sound development strategies and substantial external support. The African continent was having to deal with wars, civil strife, AIDS, natural disasters and poor economic growth, but its potential for growth was nevertheless enormous. Responsibility for African development lay in the hands of national Governments, and in that connection, good governance, human rights, democracy, reduction of excessive military expenditure and education were essential elements. The European Union subscribed to the view expressed in the secretariat document concerning the importance of the overall investment climate. In this regard, he singled out the wider use of bilateral investment and protection agreements as effective means of encouraging investment flows, and the "Community Position on Investment Protection Principles in the African, Caribbean and Pacific States" gave detailed suggestions on such concepts as fair and equitable treatment and international arbitration. However, the analysis and proposed approaches set out in the secretariat document were general in nature, and the document could have benefited from more references to individual country experience, thus identifying approaches which had worked. He cited the Swaziland example described in the document.

294. While the report was understandably devoted to direct investment, the recent trend for risk capital in Western countries to seek portfolio investment opportunities in "emerging markets" pointed to the potential importance of developments in this field. There was thus a need for adequate development of financial institutions, and in particular stock markets, in Africa.

295. There existed a number of facilities and institutions that provided assistance in various forms, such as the Lomé Convention, the European Investment Bank, the European Commission and the Centre for the Development of Industry. Contrary to what was stated in the secretariat's report (TD/B/40(2)/9, para. 72, last sentence), the European Union was holding consultations with the 69 ACP countries. The European Investment Bank could contribute to private projects, with total available resources amounting to 825 million ECUs. In addition, the European Development Fund provided technical assistance to private enterprises in many forms, particularly in such fields as studies, strengthening financial institutions, assistance in the form of training and management, the presentation of specific projects to finance institutions, the organization of investors' forums and establishment of contacts between European and local enterprises and international finance

institutions. The Centre for Development of Industry (CDI) also promoted cooperation between the European Union and ACP small and medium industries (joint ventures, management contracts, training, subcontracting, etc). It supported the creation and improvement of local small and medium industries through various forms of technical assistance. The CDI could also finance market surveys and feasibility studies for specific industrial projects and seek out European partners for joint investment projects.

296. Applying the model of South-East Asian countries' experience to Africa was not clear-cut for a number of reasons. However, important lessons could be learnt from the experience of South-East Asian countries; the Republic of Korea, for example, had achieved rapid growth of GNP from low initial level in conjunction with a decrease in population growth. South-East Asian experience also demonstrated the close link existing between human capital and economic performance, and the role of well functioning markets. Another important factor was the acquisition of technology, which was usually associated with FDI. He noted the improvements that had taken place in creating a favourable climate for business in Africa, and said that Africa deserved recognition for this. However, there was still much that needed to be done. There was also still room for improvement on the policy front, including establishment of efficient mechanisms for financial markets.

297. He concluded by saying that UNCTAD was in a position to provide technical assistance as regards FDI and transfer of technology to Africa, and appropriate measures had to be taken in this regard. The work of the Ad Hoc Working Groups on Investment and Technology Transfer and on Investment and Financial Flows had to be taken into consideration in this connection. The needs of the African continent deserved a more concerted effort by the international community in terms of embarking on policies to meet the developmental needs of the countries of Africa. The European Union would continue to contribute towards that end.

298. The representative of **Sudan** said that it was apparent from the secretariat's report that Africa remained the poorest among the developing regions and that, although African countries had made tremendous efforts to revise their economic policies and encourage investment, negative perceptions still persisted. Noting the low levels of investment flows to Africa, he said that FDI in Africa was primarily directed towards the non-manufacturing sectors, and in most countries was concentrated on exploitation of natural resources and in services such as trading houses, construction and financial services. It was clear that the large foreign investors preferred to trade with Africa rather than invest in productive activities in the region.

299. His country had taken action in a number of areas to create a favourable investment climate, and it had also endeavoured to reconstruct and liberalize its economy. It was privatizing certain agricultural corporations and industrial projects, and all these corporations were open to interested foreign investors.

300. He concluded by stating that the international community could assist Africa by finding the means to solve the long-standing debt problem and to raise the necessary funds to boost the programmes for economic reconstruction adopted by almost all the countries of Africa.

301. The representative of **Egypt** said that, in spite of the structural adjustment programmes implemented by African countries and the incentive packages introduced to attract investment, most African countries had experienced decreasing foreign direct investment. While each country was different, there were common problems such as debt, high population growth rates, poor infrastructure, high external dependence, and inability to adapt to fluctuations in international prices and falling terms of trade. African countries were particularly vulnerable to external shocks which affected their development efforts.

302. There was a need to change the negative image of Africa that persisted among potential donors and to develop a positive image that reflected the progress that had been made. The media were partly responsible for this negative image of Africa and the consequent low levels of foreign direct investment to the continent. There was therefore a need for publicity campaigns to promote foreign direct investment. He also said that his delegation agreed with the secretariat report that the legal framework was critical in attracting foreign direct investment.

303. African countries also suffered from a technology gap. This was affecting particularly the small enterprises, which were not in a position to adapt technology by themselves. South-South cooperation and intra-African cooperation could solve part of the problem, and his country was making every possible effort to promote cooperation with other African countries in this regard.

304. Referring to future UNCTAD work on these issues, he said that the question of creating a favourable investment climate needed further elaboration. He also supported the idea of an international conference on investment promotion in Africa, as well as the need for appraisal missions to African countries. UNCTAD's role was critical in helping African countries, particularly in the post-Uruguay Round and World Trade Organization era.

305. The representative of **Japan** said that Africa today faced the worst economic and social problems in the world. Economic growth and per capita income had not shown any positive signs in the 1990s, and food shortages had been aggravated by the continuous high population growth rate. The terms of trade for Africa had also deteriorated, and the ratio of debt to GNP and exports remained the worst in the world. Moreover, Africa had often been hit by severe drought and famine, and the widespread civil strife and political instability in various parts of the continent made the situation worse. It was encouraging to note, however, that some countries implementing economic as well as political reform programmes had shown signs of economic growth and stability.

306. The Tokyo International Conference on African Development had taken place in October 1993, and it had been attended by approximately 1,000 people, including representatives of 48 African countries, 12 donor countries and the European Union, 8 international organizations, NGOs and observers. The Conference had concluded that: (1) while the international community must continue and increase its assistance to Africa, aid alone could not solve all the problems which Africa faced; (2) the scope of international assistance was dependent upon how African countries coped with issues such as good

governance and democratization; (3) in view of the usefulness of exchanging development experiences between Asian and African countries, opportunities for South-South cooperation had to be increased. In this connection, his Government announced its willingness to host an Asia-Africa Seminar in 1994.

307. At the Conference, his Government had emphasized the importance of supporting democratization processes, structural adjustment efforts, human resources development, and environment protection efforts in African countries. His Government had followed this up by undertaking to implement several measures: (1) enhanced support for structural adjustment programmes: increasing support for the Enhanced Structural Adjustment Facility (ESAF) of IMF. The renewed Facility had become operational in February 1994. The Japanese contribution now amounted to approximately 43 per cent of the Capital Account of the Facility. Japan had also committed itself to contributing $US 1.1 billion (i.e 20 per cent of the total funds) to the World Bank's Special Programme of Assistance for Africa, Phase III, which would provide assistance to the sub-Saharan African countries during the period 1994-1996. Furthermore, Japan had already provided balance-of-payments support in bilateral grant form under the SPA-3 scheme to nine African countries in 1994; (2) assistance to human resources development: there were two programmes envisaged under this activity. First, there was the African Youth Invitation Programme, under which Japan would invite 100 African youths every year to stay in Japan for one month. So far 50 young African women engaged in the field of education had been invited. Secondly, there was the Asia-African Seminar, which was aimed at promoting Asia-Africa cooperation for the development of African countries. It would be hosted in Indonesia in 1994, with the Indonesian Government, the United Nations and UNDP as coorganizers, to discuss and exchange views on the institutional framework for human resources development in both Asian and African countries. The seminar would focus on the modalities of cooperation between Asian and African countries; (3) ground water supply projects for human development: aimed at improving drinking water supply for local inhabitants. The ground water supply projects included feasibility studies, technical assistance for ground-drilling, and the provision of ground-drilling and water-pumping equipment.

308. The representative of **Switzerland** commended the secretariat for the choice of experts for the Committee's informal meeting. African problems were well known, and the African crisis remained a challenge to the international community. The donor countries were called upon to provide greater assistance to Africa, and in that connection his country had earmarked 37 per cent of its ODA for Africa.

309. The problems facing Africa had been analyzed well within UNCTAD. There was no alternative to the pursuit of reforms, though he accepted that these were not without initial hardships. Opportunities did exist in Africa, and there was no shortage of the business spirit, but there was a need to marshall human resources to enable the African entrepreneur to take advantage of the existing opportunities.

310. He agreed with the analysis and proposals contained in the secretariat's document, but the proposals could have included more urgent, specific measures for implementation. The view of his delegation was that top priority had to be given to mobilization of domestic savings, reform of the banking sector and

tax reforms. Other urgent measures included expansion of the role of the private sector, improvements in business law and dissemination of appropriate knowledge. His delegation did not fully agree with the view that venture capital should be encouraged in Africa. This form of capital was not a good basis for sustainable development, and Africa needed productive rather than speculative investment. Provision of tax incentives and interest subsidies were not necessarily efficient and could result in unnecessary wastage of funds. Investment guarantees were more in keeping with market rules and thus more likely to be the appropriate means of attracting foreign direct investment.

311. Follow-up work by the UNCTAD secretariat should take into account the outcome of the Ad Hoc Working Groups on the relevant issues. Focus on small-scale enterprise would prove effective, and such areas as trade efficiency and human resources development should also be emphasized. African countries had to give higher priority to basic education, since it gave higher returns, and they needed technical assistance to improve accounting procedures. Because there were various bodies pursuing similar ends, it was imperative to ensure consistency. His country pledged continued support for the African countries.

312. The representative of Norway, speaking on behalf of the **Nordic countries**, said that since the late 1980s there had been a significant increase in foreign direct investment in developing countries, and FDI was in the process of surpassing ODA as the single most important source of external financing for developing countries, accounting for nearly one-third of total net resource flows. FDI was already the main vehicle of technology transfer. In terms of employment creation, technology diffusion and economic development, this represented a positive development for those countries which had received such investments. However, FDI to sub-Saharan Africa had actually declined in recent years, and sub-Saharan Africa was the only developing region that had recently suffered from declining FDI inflows.

313. This trend had to be reversed. FDI alone would not put Africa back on a growth track. However, foreign investment tended to increase in the presence of a sound, stable and growth-conducive economic environment, and foreign investment itself would in turn stimulate the growth process. So in a sense, FDI followed - it did not lead. In this regard, he agreed with the secretariat document that FDI would be attracted to a county if that country was popular with its own business community - the domestic investors and entrepreneurs. If African investors were hesitant, risk-averse or transferring financial resources abroad, not much FDI could be expected. He agreed with the view that FDI would be stimulated by political stability, a stable macro-economic environment, predictable economic policies, a qualified work-force, legal guarantees, elimination of undue red tape, an open trade policy and local and regional market opportunities. In other words, what determined FDI inflows were very much the same elements that together shaped a sound economy.

314. The Nordic countries recognized that many African countries had made significant progress in creating a more market-oriented economic environment during the last decade, and some countries deserved greater recognition for their efforts than they have received so far. The fact remained, however,

that both domestic and foreign investors in many African countries had yet to respond to the reforms undertaken. In the case of FDI, this might be due to the overly negative images and perceptions of Africa, but the Nordic countries believed that the lack of FDI response had more to do with yet unfinished reform and remaining structural deficiencies. He called upon the international community to support the reform process, with technical assistance, R & D cooperation and official development assistance for those who needed it most.

315. The State had a positive role to play in creating a sound business climate. This would include institution-building and human resources development - both of which were badly needed in Africa. The principle of equal treatment was very important, and performance requirements over and above those that applied to national investors had to be avoided, since they might discourage foreign investors from investing at all. Just as important, foreign investors should generally not receive any privileged treatment denied to national investors in similar circumstances. The use of subsidies, tax exemption or outright tax holidays was - in most cases - both costly and of little relevance for the foreign investors concerned. For them, it was the overall business climate that really counted. The creation of a positive environment for foreign direct investment had less to do with micromangement than with macropolicies and good governance; it had much less to do with offering incentives than with avoiding disincentives, and it had somewhat less to do with promotion of foreign investment in particular than with offering attractive opportunities for investment in general.

316. The representative of the **United States of America** said he agreed with the secretariat document that the investment climate was crucial to investors' decisions. Although progress had been made in Africa in recent years, much more needed to be done if significant foreign investment was to be made outside the petroleum sector, the major recipient. Many African countries still needed to have a more aggressive and consistent approach to achieve conditions which would be encouraging to investors. Privatization and deregulation needed to be accelerated to create a more favourable investment climate.

317. There existed a number of impediments to investment in Africa that were not covered in the secretariat's report, including corruption and the absence of rule of law. High tax rates represented another problem that needed to be addressed, since small-scale enterprises were adversely affected by high taxes. The government sector was also too large, in many cases creating an excessive burden on the economy.

318. He agreed with the secretariat's report that political stability was important, but stability without democracy was not enough to attract foreign direct investment. Government intervention beyond support of a favourable investment climate should be approached with great care, since many economic interventions by Government in Africa had proved harmful. His delegation agreed with the view that regional integration would be helpful in attracting investment, as larger markets would become available. His delegation also shared the view that more contact between African business communities and Governments and their counterparts in the developed world would be useful.

319. The United States was committed to the protection and facilitation of investment in Africa through the Overseas Private Investment Corporation and other agencies and through bilateral investment treaties with several African countries. The Multilateral Investment Guarantee Agency and the International Finance Corporation provided similar assistance on a multilateral basis.

320. The representative of **Algeria** said that it had been 10 years since African countries had initiated structural adjustment programmes. The African countries had attempted to improve mobilization of domestic savings and attract foreign direct investment, but, as the Trade and Development Report 1993 and the recent report of the World Bank on the Economic Outlook of Developing countries had indicated, the African situation had not improved.

321. Her delegation was convinced that, in spite of the pervasive negative situation, opportunities did exist. Many African countries, including her own, had improved their investment codes, inter alia giving guarantees for repatriation of profit and settlement of international disputes. However, there was a need for manifestation of greater political will to assist African countries. The design and implementation of structural adjustment programmes were still in need of improvement, and attention also had to be paid to the issue of the debt burden and compensatory mechanisms in the face of the vulnerability of most African countries to external shocks. Her delegation was in favour of the idea of convening a world conference on commodities, under UNCTAD's auspices. In that connection, it was important that the Board's conclusions and recommendations be given a proper follow-up.

322. The representative of **India** said that Africa had been suffering from a continuous deterioration of its internal and external environment. Fluctuations in international commodity prices had adversely affected Africa, especially those countries dependent on cocoa and coffee. Africa's share of FDI inflows to developing countries was less than 7 per cent of the total. Recently, it had seen very little influx of private capital, and most of the capital flowing in was in the form of ODA. Political instability, high population growth rates, natural disasters, etc., had further exacerbated the situation.

323. There was an urgent need to take steps to ameliorate the situation and put Africa back on the path of development and growth. The African countries themselves had courageously adopted rigorous structural adjustment programmes and had implemented other economic reform measures. In this connection, they had undertaken widespread deregulation of their economies and adopted market-oriented approaches. Despite all these changes, Africa had not been able to overcome its problems of slow recovery and poor growth performance.

324. There were certain key areas in which international assistance would help the African countries to better integrate themselves with the world economy and to attract greater flows of resources, specially foreign direct investment. These would include building up appropriate infrastructure, with adequate transportation facilities, reliable power and water supply, and good telecommunication facilities, as well as human resource development through the training of personnel in both managerial and technical areas. This had to be coupled with proper transfer of technology and the building-up of adequate domestic technological capability. Another area that needed attention was

strengthening of the financial sector through the setting-up of efficient financial institutions, capital markets, and stock exchanges. He called for appropriate debt reduction strategies to help the African countries obtain relief from the debt burden they were under.

325. UNCTAD could play a leading role in assisting the African countries in developing strategies for these areas, and especially in the field of technical cooperation. He applauded the increasing regional and subregional integration in Africa, and he called for adequate funding for the institution concerned. However, given the multiplicity of such regional institutions, efforts should be made to eliminate duplication among them. His country would support all efforts of the international community to provide assistance to Africa.

326. The representative of **China** said he believed that the Board's consideration of the New Agenda would result in positive assistance to Africa. He noted the low levels of foreign direct investment in Africa, the problem of capital flight, and the inadequacy of domestic resources, and said that, to promote foreign direct investment, political and social stability were important, as were good macroeconomic management, suitable infrastructure, and adequate human resources.

327. Many African countries were implementing reforms which included trade liberalization, incentive packages to attract direct investment, etc. However, domestic resources were essential as well, and the fact was that in Africa domestic resources were lacking. He called upon the international community to acknowledge this and to provide Africa with the necessary assistance.

328. Referring to the consideration of the implementation of the United Nations New Agenda for the Development of Africa in the 1990s by the Economic and Social Council in 1995 and the mid-term review by the General Assembly in 1996, he called upon the international community, especially the developed countries, to assist the African countries with resources and to provide technical assistance to facilitate economic reform. In particular, developed countries could provide investment guarantees and financial support to encourage their own nationals to invest in Africa, agree to debt reduction and debt-equity swaps to help mobilize domestic resources, and provide more training opportunities in order to help develop human resources. There should also be a thorough evaluation of the Uruguay Round agreement as to its impact on developing countries, as well as an information campaign on the development potential of African countries, investment opportunities and the improved investment climate in that region.

329. The representative of **Senegal** described the historical background to the programmes on Africa and gave a brief account of the role played by his country in bringing about these programmes. His country had put in place a number of measures aimed at attracting foreign direct investment and ensuring stable growth and development. It had also put in place a structural adjustment programme with the assistance of the multilateral financial institutions, and it had undertaken extensive privatization programmes, involving sectors such as agriculture, livestock, fisheries, etc. However, it regarded certain sectors as of strategic importance and it would not therefore

privatize everything. His country attached great importance to economic integration and cooperation among African countries and to this end had signed the Abuja Treaty establishing the African Economic Community. He expressed the hope that this would stimulate investment in the region and attract foreign direct investment.

330. The representative of the **Syrian Arab Republic** said the least that could be said was that, despite the willingness to improve the situation in Africa, much still had to be done, and quickly. It would therefore be useful to coordinate efforts undertaken at the international level. These efforts, however difficult they seemed, would prevent catastrophic situations due to the negligence of the international community. She added that it was not enough to say that stability was a precondition for attracting foreign direct investment; on the contrary, investment that improved the economic and social environment guaranteed the desired stability.

331. The representative of **Nigeria**, noting that there was fierce competition for limited resources among nations, pointed out that Africa, as a region, continued to pose enormous social, economic and political challenges to the international community. Africa's difficulties were aggravated by poor economic performance, and these problems had been adduced to explain the low levels of foreign investment in African countries. His delegation's view, however, was that regions with similar problems had received more assistance and greater foreign investments.

332. African countries had embarked on painful economic reforms, but the achievements of these programmes would be limited if the debt problem was not addressed sufficiently. His own country, Nigeria, spent about 52 per cent of its foreign exchange earnings on debt servicing, and most of the remainder was spent on social services and infrastructure. To address this problem, vast amounts of resources needed to be mobilized from within Africa, as well as from external sources. Africa needed a Marshal Plan type of assistance. The problems to be addressed also included transport and communications links, energy, infrastructure and environmental degradation.

333. Nigeria, as part of its economic reform programmes, had put in place a number of policy measures to encourage local investment and foreign direct investment. It had harmonized investment laws and regulations and eliminated most bureaucratic hurdles to private investment. Nigeria had over 100 embassies and consulates around the world to facilitate visa processing for business-related trips and provide the necessary assistance to investors.

334. His country had undertaken human resources development to provide skills to facilitate the design and implementation of efficient policies, in particular in the areas of structural reform, foreign direct investment and support for the private sector. Additional technical assistance in these areas would help. UNCTAD should intensify its efforts to come up with practicable policy options to deal with his own country's situation and the African situation in general, while the industrialized countries and relevant international institutions should encourage investments and increase assistance.

Action by Sessional Committee II

335. At its third (final) plenary meeting, on 28 April 1994, Sessional Committee II adopted its draft agreed conclusions on agenda item 6 (TD/B/40(2)/SC.2/L.2).

Closing statement

336. The **Chairman** said that the world had just witnessed the unfurling of the new flag of South Africa, which signified for the entire continent of Africa the shedding of the last vestiges of colonialism and the final dismantling of the unconscionable system of apartheid. All humanity had cause to rejoice.

337. Sensitive to and concerned about the deteriorating situation in the African continent, the international community had responded with the New Agenda. During the Committee's review of UNCTAD's contribution to that strategy, he had been most heartened by the spirit of cooperation and the commitment that had prevailed.

Action by the Board

338. The action taken by the Board on agenda item 6 is reported in TD/B/40(2)/24(Vol. I), section I. A. (See agreed conclusions 414 (XL)).

Chapter VI

REVIEW AND EVALUATION OF WORK PROGRAMMES (MID-TERM)*

(Agenda item 7)

339. In the course of the second part of the fortieth session of the Board, the Mid-term Review Informal Working Group held two meetings - the 5th and 6th meetings - under the chairmanship of the Officer-in-Charge of UNCTAD.

Action by the Board

340. The action taken by the Board on agenda item 7 is reported in TD/B/40(2)/24(Vol.I), section I. B.

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* Item to be concluded at the resumed second part of the fortieth session of the Board (25-27 May 1994). For the report of the Board on the resumed second part of its fortieth session, which contains the final action on the mid-term review exercise, see TD/B/40(2)/26.

Chapter VII

OTHER MATTERS IN THE FIELD OF TRADE AND DEVELOPMENT

(Agenda item 8)

(a) Report of the Joint Advisory Group on the International Trade Centre UNCTAD/GATT on its twenty-sixth session

341. For its consideration of this item, the Board had before it the report of the Joint Advisory Group on the International Trade Centre UNCTAD/GATT on its twenty-sixth session (ITC/AG(XXVI)/139 and Add.1) distributed under cover of TD/B/40(2)/8.

342. The **Chairman of the Joint Advisory Group**, Mr. Boddens-Hosang (Netherlands), introducing the report, recalled that the Group had examined the following matters: (i) a review of ITC's technical cooperation activities in 1992, based on its Annual Report; (ii) a report of the ITC's technical meeting, held in 1992, on the evaluation of the ITC's subprogramme on institutional infrastructure for trade promotion at the national level; and (iii) a report of the ITC's technical meeting, held in 1993, on the evaluation of ITC's activities in commodity trade, development and promotion.

343. He reported that the Officer-in-Charge of ITC, in introducing the Annual Report, had provided an update of ITC's main activities, the problems encountered, and the responses thereto, and suggestions for the future. It had been recalled that half of the management-level posts in the ITC had been vacant for a considerable period of time and that the filling of these posts had become even more urgent since two of the three remaining ITC Directors were due to retire in 1994. The Officer-in-Charge had also referred to ITC's efforts during 1992 to realign its activities within the new Medium-Term Plan covering the period 1992-1997 and had given a detailed account of ITC's activities related to environment, including preliminary work on eco-labelling, and to ITC's efforts to establish a field presence. As regards the resource situation, delivery from trust funds, including funds-in-trust, had reached its highest figure in 1992, while the availability of trust funds had declined in 1993 owing to a reduced contribution from some major donor countries. Although efforts had been made to diversify resources, the Officer-in-Charge had appealed to the donor community to arrest or reverse the decline in contributions to the ITC, especially in view of the increased demand on ITC's services from developing countries following the successful conclusion of the Uruguay Round negotiations.

344. The Officer-in-Charge had recalled that the ITC would be celebrating its thirtieth anniversary in 1994, which would provide a suitable opportunity for a review of its current and future activities, role and direction. In this context, the ITC secretariat had embarked upon the preparation of a mission statement which would be submitted for the consideration of the Joint Advisory Group at its twenty-seventh session in 1994.

345. The Group had unanimously expressed its appreciation to the Officer-in-Charge and the ITC staff for the excellent work carried out in very

difficult circumstances and had expressed satisfaction that ITC had achieved its historically highest rate of programme implementation in 1992. The Group had expressed regret for the difficult circumstances in which ITC continued to find itself owing to the undue postponement of a decision on the appointment of its Executive Director and the filling of other key management posts, and had called on ITC's parent bodies to arrive urgently at an appropriate solution.

346. With a view to revitalizing ITC, one delegation had circulated a non-paper proposing a review of ITC's mandate, financial and personnel situation, general structure, and its relations with its parent bodies. The review would also examine the broader perspective for strengthening the operational activities of the United Nations system in the trade promotion sector. Following informal discussions on the proposal, the Joint Advisory Group agreed that its Bureau should initiate informal consultations at an appropriate time on the terms of reference and timing of the review.

347. The representative of **Romania** expressed appreciation for ITC's technical assistance work in developing countries and countries in transition. He considered that ITC's activities should be strengthened to enable it to respond to the increasing needs of these countries, and, for this purpose, bilateral donors, UNDP and other donor institutions should be invited to increase their voluntary contributions to ITC. He was confident that the recent appointment of Mr. D. Belisle to the post of Executive Director of ITC would allow ITC to carry out its work effectively. He expressed the hope that decisions would be taken very soon regarding the filling of the vacant management posts in ITC. ITC would be celebrating its thirtieth anniversary in 1994 and this would provide an opportunity to review ITC's activities, role, and future and present activities, taking into account the important changes which had taken place in international economic relations. Such a review should aim at reinforcing ITC's responsibilities as the United Nations technical cooperation agency dealing with trade promotion and export development.

348. The representative of **Switzerland** noted with satisfaction the appointment of the Executive Director of ITC and his delegation looked forward to good cooperation with him. He was confident that ITC would, under the leadership of the Executive Director, return to "business as usual". He referred to the urgency of convening a meeting of the Joint Advisory Group to discuss ITC's future work programme, and to enable ITC to adjust its priorities in response to the increasing needs of the developing countries following the signature of the Final Act of the Uruguay Round.

349. The spokesman for the **Group of 77** (Chile) expressed his Group's satisfaction on the appointment of the Executive Director of ITC. He commended the Officer-in-Charge of ITC for his work during a difficult period when the organization had been without an Executive Director. In spite of a reduction of resources, the Officer-in-Charge had managed to ensure that ITC continued to respond to the technical assistance needs of the developing countries. Noting with satisfaction that ITC had begun work in very important areas such as eco-labelling, he urged that ITC be associated with UNCTAD in carrying out such activities. He hoped that efforts would be made to strengthen the links between UNCTAD and ITC, and in this regard, drew

particular attention to the United Nations International Symposium on Trade Efficiency, which would take place later in the year in Columbus, Ohio. He stressed that, in view of the work which ITC had already undertaken on trade efficiency, it should give special support to UNCTAD in preparation for the event.

350. The representative of the **Russian Federation** expressed satisfaction at the nomination of the Executive Director and conveyed his delegation's congratulations to Mr. J. Belisle on his appointment, which should lead a new lease of life and dynamism for the Centre. He supported the proposal that the Joint Advisory Group should undertake a review of ITC's activities on the occasion of its thirtieth anniversary, including those relating to the countries in transition.

351. The representative of **Canada** expressed his delegation's satisfaction at the appointment of the Executive Director. He supported the proposal to undertake a review of ITC and urged that consultations on this subject be initiated as soon as possible. He conveyed his delegation's appreciation to the Officer-in-Charge of ITC for his work in leading ITC during a period when the Centre had been in an untenable situation.

352. The representative of **Peru** recalled the past concerns of the Latin American Group to resolve the situation regarding the appointment of the Executive Director of ITC at the Assistant Secretary-General level. He noted with satisfaction that the situation had now been resolved, and that this was an indication of the importance of ITC's work in trade promotion and export development. He conveyed his delegation's appreciation for the work carried out by the Officer-in-Charge of ITC during the past two years, at a time when the Centre had been going through a very difficult period. Referring to the 1994 session of the Joint Advisory Group, he expressed the hope that this meeting would be convened as soon as possible, following the Executive Director's assumption of duties, and that this opportunity should be seized to review ITC's work programme and future role. Finally, he stressed the importance of ITC's work in trade efficiency.

353. The representative of **China** commended the Officer-in-Charge of ITC for his work during a very difficult period. He referred to the increasing needs of the developing countries for ITC assistance and expressed satisfaction at the appointment of the Executive Director of ITC. He expressed the hope that, under the leadership of the new Executive Director, ITC would be able to continue its work in a normal fashion. He also expressed the hope that the Joint Advisory Group would be convened as soon as possible in 1994.

354. The representative of **Cameroon** expressed the hope that the appointment of the Executive Director of ITC would enable ITC to revive its important work in trade promotion and export development. He noted with approval the proposal to undertake a review of ITC.

355. The representative of Sweden, speaking on behalf of the **Nordic countries**, expressed his satisfaction that the new Executive Director of ITC had been appointed. He conveyed his congratulations to Mr. Belisle, pledged his delegation's support to him and looked forward to cooperating with him in the future.

Action by the Board

356. At its 835th meeting, on 19 April 1994, the Board took note of the report of the Joint Advisory Group on the International Trade Centre UNCTAD/GATT on its twenty-sixth session (ITC/AG(XXVI)/139 and Add.1, distributed under cover of TD/B/40(2)/8) and the comments made thereon.

Chapter VIII

ARRANGEMENTS FOR THE CELEBRATION OF THE THIRTIETH ANNIVERSARY OF UNCTAD

(Agenda item 10)

Action by the Board

357. The proceedings and action by the Board on agenda item 10 are reported in TD/B/40(2)/24(Vol. I), section I. B.

Chapter IX

OTHER BUSINESS

(Agenda item 12)

Terms of reference for the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament

358. At the 839th meeting, on 28 April 1994, the **President of the Trade and Development Board at its thirty-ninth session**, Mr. Gündüz Aktan (Turkey), reported on the further consultations which he had conducted on this subject on 26 April 1994. It was with regret that he had to report that, once again, the consultations had failed to reach a consensus on the terms of reference of the Ad Hoc Working Group. It was the general view that time was running out before UNCTAD IX, and that there was no use in following the well-trodden path of prevailing upon the Presidency of the Board to attempt to find a way out of the impasse. He stated that the paper he had presented on 19 April would be maintained until the end of this process since it represented the work of the consultations from the beginning.

359. The **President of the Trade and Development Board** expressed appreciation to Mr. Aktan for his report and the efforts he had made. His task had not been easy. The issue was a very complex one, as had been revealed in the various concerns expressed by delegations in the consultations. The Board must now decide how to proceed with this matter.

360. He recalled that the Board, in its decision 399 (XXXIX), had established the Ad Hoc Working Group to Explore the Issue of Structural Adjustment for the Transition to Disarmament. The fact that the Board had not yet agreed on terms of reference did not undo that decision of the Board. Consequently, the Ad Hoc Working Group, though it did not yet have terms of reference and had not yet been convened, could still be considered as part of the intergovernmental machinery of UNCTAD. The future and structure of the subsidiary bodies of the Board were to be discussed within the framework of the mid-term review at the resumed session of the Board in May 1994. This meant that the question of the Ad Hoc Working Group would also be considered at that resumed session. The mid-term review would therefore have before it the report of Mr. Aktan, as well as his latest draft terms of reference dated 19 April 1994, and the Board would be able to draw its conclusions at that time. However, a number of delegations had proposed that the issue should be included as an item on the agenda of the Autumn session of the Board, so that a substantive discussion could take place within the framework of the Board itself. This proposal could be accommodated if the Board so wished. The agenda for the Autumn session was also to be reviewed at the Board's resumed session in May, which meant that further discussion on the Ad Hoc Working Group and on the inclusion of an item in the Board's Autumn session could take place at the same time. If this procedure were acceptable to the Board, he would in the meantime request Mr. Aktan to continue his efforts with his consultations and to prepare the ground for an acceptable decision when the Board held its resumed session from 25 to 27 May 1994.

361. All delegations that participated in the following discussion on this item expressed their deep appreciation to Mr. Aktan for the very great efforts he had made to secure agreement on the terms of reference for the Ad Hoc Working Group, praising his keen diplomatic skills and inventiveness in the face of a very difficult assignment.

362. The spokesman for the **European Union** (Greece) observed that the latest text put forward by Mr. Aktan was, in most of its parts, along the lines of the text of 3 May 1993 and, in several instances during the series of consultations, the European Union had stated that it could work on the basis of this text. However, substantial modifications introduced during consultations by UNCTAD member States had made it clear that a consensus could not be achieved. Moreover, the time factor had to be taken into consideration. In addition to time, substantial resources had already been consumed for the consultations themselves, which could have been devoted to real work on the subject. Therefore, the European Union considered that it was high time for this sovereign body, the Trade and Development Board, to decide, in accordance with paragraph 99 of the Cartagena Commitment, on an alternative course of action to the one introduced during the thirty-ninth session which, unfortunately, had proved to be inoperative. Paragraph 99 of the Cartagena Commitment referred discussions on the subject under question to the intergovernmental machinery of UNCTAD. The European Union proposed that in the provisional agenda for the first part of the forty-first session of the Board an item be included which would read as follows: "National experiences of conversion from military to civilian production". During the slot for this item, if it were to be included in the agenda, a panel of experts would be invited to contribute to the discussion as was the practice for other items on the Board agenda. He hoped that this proposal would meet with the approval of other delegations. It was made in a positive spirit and with great respect of the work undertaken by Mr. Aktan during the past year. It was obvious that the apparent deadlock could not continue and this proposal should be viewed as a step in response to the overall needs and efforts of streamlining the work of UNCTAD.

363. The representative of **Chile** expressed regret that the discussion of this topic had been politicized by some delegations. The mandate given for the Working Group in the Cartagena Commitment concerned the use of resources released by disarmament for the productive benefit of the developing countries. There was nothing political about this mandate. It was certainly not relevant to drag into UNCTAD's activities matters that were dealt with by the General Assembly or the Committee on Disarmament. In the light of the discussions that had taken place, he agreed that this subject should be referred to the Board at its resumed session in May on the mid-term review. At its thirty-ninth session, the Board had taken a decision to establish the Working Group and he considered that the resumed session of the Board was competent to take final action on the matter. Accordingly, Chile could not agree with the proposal by the European Union that this item be deferred until the Autumn session of the Board.

364. The spokesman for the **Latin American and Caribbean Group** (Peru), stated that his Group would prefer to see this question dealt with at the resumed

session of the Board in May. He agreed with the summary made by the President and he sincerely hoped that the Board would be able to take a decision on this question at its resumed session.

365. The representative of **Egypt** recalled that, at the fifth executive session of the Board on 8 April 1994, her delegation had urged that this item be dealt with at the resumed session of the Board in the context of the mid-term review of the Working Groups and the establishment of new working groups. At that time the representative of Chile had rejected that idea, wishing to see the matter dealt with at the current session of the Board. The Egyptian delegation had gone along with that course of action but, in view of the deadlock which had now been reached, her delegation did not wish to see this matter discussed at the resumed mid-term review session and consequently supported the proposal made by the European Union.

366. The representative of **Ukraine** said that his delegation was not prepared to discuss specific proposals on substance at this stage. He felt, however, that the elaboration of forms and methods for dealing with this subject should take place in the context of the mid-term review of UNCTAD's activities and mandate. The conversion of military resources to civilian uses was of interest to many countries and it should therefore occupy a prominent place in UNCTAD's activities.

367. The representative of **Sweden** expressed regret at the failure of the consultations. He agreed with the European Union that negotiations were now at an impasse and he supported the EU proposal on this matter.

368. The representative of the **Syrian Arab Republic** expressed his delegation's support for the statement made by the representative of Egypt and agreed that this question should be dealt with at the Autumn session of the Board.

369. The representative of the **Russian Federation** said that his delegation had been willing to cooperate in the effort to reach consensus on the documents submitted to the Board on this item. The first paper presented by the secretariat had been a balanced document and in his view could have provided a basis for agreement. Mr. Aktan's revised text was also acceptable but again there had been no agreement. However, he did not share the pessimistic view expressed by the representative of Egypt that negotiations had now reached a deadlock. He was convinced that, in the end, logic and cooperation would prevail.

370. Referring to the two proposals put forward on this item, he said that the first proposal made by the European Union, namely to defer the item to the Autumn Board, would result in a whole year having been wasted. It would also violate a previous decision taken by the Board and thus set a bad precedent. On the second proposal put forward by Chile, namely that the matter be taken up at the resumed session in May, his delegation was flexible and would cooperate to find a solution. At the same time he wished to propose, as a third possible option, that a group of high-level experts be convened to study the parameters of this issue in order to facilitate its future consideration in UNCTAD. Such a group would be asked to make recommendations to the Board at its Autumn session. He urged delegations to give due consideration to

these three options. The Russian Federation would be prepared to join in a consensus on any of them. Above all, the decision taken by the Board at its thirty-ninth session must be implemented.

371. The representative of **Chile**, noting the proposal by the Russian Federation for the establishment of a group of high-level experts, expressed the view that a decision on this should be taken by the Board at its resumed session in May.

372. The representative of **Japan** recalled that, at the fifth executive session of the Board, delegations had emphasized the importance of dealing with this item in the context of the mid-term review, i.e. in the framework of the review of all UNCTAD activities. He could therefore not understand why some delegations felt that the question could not be taken up at the resumed session in May. He added that his delegation agreed with the Russian Federation that previous decisions taken by the Board must be honoured. Finally, he expressed support for the proposals formulated by the President.

373. The representative of **Algeria** cautioned against dramatizing this issue. It was true that the subject-matter was new and complex, and it was probably for that reason that the consultations had failed to reach agreement. Nevertheless, the mandate given by the Cartagena Commitment remained intact and if it was not possible to achieve consensus at this stage it might well be possible to do so later. In this context, she recalled the relevance of paragraph 51 of the Cartagena Commitment on the sequencing of work.

374. Regarding the proposals that had been made, she believed that further discussion of this item at the resumed session in May would be premature since it was unlikely that there would be a rapid evolution in people's thinking by that time. She therefore supported the compromise proposal of the European Union that the matter be taken up at the Autumn session of the Board. She also agreed that the proposal made by the Russian Federation for a high-level group could facilitate progress. The composition of such a group might be taken up at the resumed session of the Board in May.

375. The representative of **China** recalled that China had already stated that the failure so far to resolve this issue was due to the fact that delegations placed diverse interpretations on the provisions of the Cartagena Commitment and differed on how to implement them. Great efforts had been deployed to reach agreement on this complex task. In general he agreed with the comments made by the representative of Algeria and his delegation was ready to consider new proposals and initiatives that would lead to a satisfactory solution.

376. The spokesman for the **European Union** (Greece) said that, with regard to the notion of adhering to mandates and not setting bad precedents, it was important not to exclude any solution and, if necessary, to have the courage to admit that a mistake had been made at the thirty-ninth session of the Board. The European Union, for its part, was ready to correct such a mistake.

377. The representative of **Chile** said that he could not accept the European Union's contention that the Board might have committed a mistake at

its thirty-ninth session. He pointed out that, since it was the Conference which had called for this subject to be dealt with in UNCTAD, one could not fault the action taken by the Board.

Action by the Board

378. At its 839th meeting, on 28 April 1994, the Board decided that this item would be discussed at the resumed second part of the fortieth session of the Board dealing with the mid-term review, in May 1994. The proposals made by the European Union and by the Russian Federation would be taken into account at the mid-term review. Noting that the provisional agenda for the first part of the forty-first session of the Board would also be discussed at the resumed session in May, the Board agreed that it would be able to decide then whether to refer the item forward to the first part of its forty-first session.

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